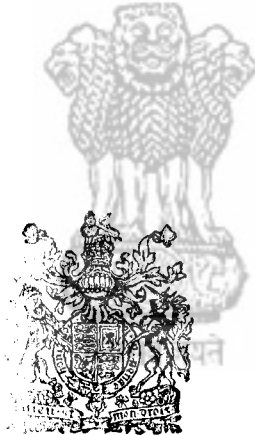


FINAL REPORT
OF THE
IMPERIAL SHIPPING COMMITTEE
ON THE
DEFERRED REBATE SYSTEM.



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[*Note.*—The Interim Report on the Deferred Rebate System as obtaining in the trade between the United Kingdom and Australia, dated August, 1924, was published as Cmd. 1486. Up to the date of that Report, the expenses of the Committee in connection with their enquiry into the deferred rebate system had been, as stated in the Report, £37 19s. 0d. and in addition the cost of printing and publishing the Interim Report was £8 18s. 6d. The further expenses of the Committee in continuing the enquiry have been £122 1s. 0d. and in addition the cost of printing and publishing the present Report is £36 17s. 6d. Thus the aggregate expense for the whole enquiry which extended over two years, is £205 16s. 0d.]

The Imperial Shipping Committee have already issued the following Reports :—

- (1) On the Limitation of Shipowners' Liability by Clauses in Bills of Lading and on certain other matters relating to Bills of Lading (Cmd. 1205).
- (2) On the Functions and Constitution of a Permanent Imperial Body for Shipping Questions (Cmd. 1483).
- (3) On the Deferred Rebate System as obtaining in the trade between the United Kingdom and Australia [Interim Report]. (Cmd. 1486).
- (4) On rates of freight in the New Zealand Trade (Cmd. 1564).

INSTRUMENT OF APPOINTMENT OF THE IMPERIAL SHIPPING COMMITTEE.

WHEREAS the Imperial War Conference, 1918, passed on the 26th July, 1918, the following resolution :—

1. That in order to maintain satisfactorily the connections, and at the same time encourage commercial and industrial relations, between the different countries of the Empire, this Conference is of opinion that shipping on the principal routes, especially between the heart of the Empire and the Overseas Dominions, including India, should be brought under review by an Inter-Imperial Board on which the United Kingdom and the British Dominions and Dependencies should be represented.
2. That for this purpose an Imperial Investigation Board, representing the various parts of the Empire, be appointed, with power to enquire into and report on all matters connected with ocean freights and facilities, and on all matters connected with the development and improvement of the sea communications between the different parts of the Empire, with special reference to the size and type of ships and the capacities of harbours ; the Board to include, in addition to representatives of the Governments concerned, persons with expert knowledge of the problems involved, including representatives of the shipping and trading interests ;

AND WHEREAS it has been represented to me, the Right Honourable David Lloyd George, Prime Minister and First Lord of the Treasury, by the Secretary of State for the Colonies after consultation with the Governments of the Dominion of Canada, of the Commonwealth of Australia, of the Dominion of New Zealand, of the Union of South Africa and of Newfoundland, by the Secretary of State for India and by the President of the Board of Trade, that it is now desirable that a Committee should be appointed under the title of the Imperial Shipping Committee, with the following functions, *viz.* :—

- (i) To enquire into complaints from persons and bodies interested with regard to ocean freights, facilities and conditions in the inter-Imperial trade or questions of a similar nature referred to them by any of the nominating authorities, and to report their conclusions to the Governments concerned.
- ii) To survey the facilities for maritime transport on such routes as appear to them to be necessary for trade within the Empire, and to make recommendations to the proper authority for the co-ordination and improvement of such facilities with regard to the type, size and speed of ships, depth of water in docks and channels, construction of harbour works and similar matters.

Now I, therefore, do hereby appoint the following persons to form the Imperial Shipping Committee and to exercise the functions hereinbefore set forth :—

Sir H. J. Mackinder, M. P. (*Chairman*).—

Sir A. H. D. Ramsay Steel-Maitland, Bart., M.P., nominated by the Secretary of State for the Colonies.*

Sir W. S. Meyer, G.C.I.F., K.C.S.I., nominated by the Secretary of State for India in Council.†

Sir Hubert Llewellyn Smith, G.C.B., nominated by the Board of Trade.

Hon. Sir George H. Perley, K.C.M.G., nominated by the Government of the Dominion of Canada.‡

Mr. H. B. G. Larkin, nominated by the Government of the Commonwealth of Australia.

The High Commissioner for New Zealand, nominated by the Government of the Dominion of New Zealand.

Captain G. Bowden, M.C., nominated by the Government of the Union of South Africa.

Hon. Sir Edgar R. Bowring, nominated by the Government of Newfoundland.

Sir Kenneth Anderson,

Bart., K.C.M.G., §

Sir Alfred Booth, Bart.,

Mr. W. Lionel Hichens,

Mr. Kenneth Lee,

Mr. J. W. Murray,

} being persons experienced in
shipping and commerce.

I further appoint Mr. E. J. Elliot, ¶ of the Board of Trade, to be Secretary to the said Committee.

(Signed) D. LLOYD GEORGE.

June 15th, 1920.

* On July 26th, 1922, Sir Gilbert Grindle, K.C.M.G., C.B., was appointed a member of the Committee in the room of Sir Frederick Butler, K.C.M.G., C.B., who resigned on joining the Foreign Office. Sir Frederick Butler had on October 2nd, 1920, succeeded Sir A. H. D. Steel-Maitland, who had resigned on the ground of ill-health.

† Sir W. S. Meyer died on October 18th, 1922.

‡ On April 15th, 1922, Hon. P. C. Larkin was appointed a member of the Committee in the room of Sir George Perley, resigned.

§ From January 19th, 1921, to June 7th, 1921, Mr. William J. Noble (now Sir William J. Noble, Bart.), served on the Committee during the absence from the country of Sir Kenneth Anderson.

¶ On May 9th, 1921, Mr. T. Harrison Hughes was appointed a member of the Committee in the room of Sir Alfred Booth, who had resigned on the ground of ill-health. From February 8th, 1922, to May 1st, 1922, Mr. L. C. Harris served on the Committee during the absence from the country of Mr. T. Harrison Hughes.

¶ Mr. R. E. Fennelly, also of the Board of Trade, has since September, 1920, acted as Assistant Secretary.

FINAL REPORT
 OF THE
IMPERIAL SHIPPING COMMITTEE
 ON THE
DEFERRED REBATE SYSTEM.

- TO THE RIGHT HONOURABLE A. BONAR LAW,
 Prime Minister and First Lord of the Treasury ;
- TO THE RIGHT HONOURABLE W. L. MACKENZIE KING, C.M.G.,
 Prime Minister of the Dominion of Canada ;
- TO THE RIGHT HONOURABLE W. M. HUGHES, K.C.,
 Prime Minister of the Commonwealth of Australia ;
- TO GENERAL THE RIGHT HONOURABLE J. C. SMUTS, K.C., C.H.,
 Prime Minister of the Union of South Africa ;
- TO THE RIGHT HONOURABLE W. F. MASSEY,
 Prime Minister of the Dominion of New Zealand ;
- TO THE HONOURABLE SIR RICHARD A. SQUIRES, K.C.M.G., K.C.,
 Prime Minister of Newfoundland ;
- TO THE RIGHT HONOURABLE THE VISCOUNT PEEL, G.B.E.,
 Secretary of State for India ;
- TO THE RIGHT HONOURABLE HIS GRACE THE DUKE OF
 DEVONSHIRE, K.G., G.C.M.G., G.C.V.O.,
 Secretary of State for the Colonies ;

REPORT.

WE, the IMPERIAL SHIPPING COMMITTEE, acting under the first part of our terms of reference, have enquired into complaints received from the Governments of the Commonwealth of Australia and of other parts of the British Empire, and from bodies interested in trade with various parts of the Empire, regarding the operation of the deferred rebate system.

We now beg leave to report our conclusion upon this subject to all the Governments of the Empire, since they are all concerned.

1. The question of the deferred rebate system was first brought to the notice of the Imperial Shipping Committee in a letter of the 15th November, 1920, by the Government of the Commonwealth of Australia, and a copy of this letter and of subsequent correspondence is appended (Appendix I). From this it will be seen that the complaint arose from the operation of the deferred rebate system in the outward trade to Australia as against shipments by the Commonwealth Government Line and that reference was made to allegations of threats that the Conference Lines would shut out the cargo of shippers using the Government Line. Finally, the Imperial Shipping Committee were asked to make a full investigation of the matter "with a view to ascertaining whether some recommendation should not be made to the British Government which will protect alike the interests of the Commonwealth Government Line and also the interests of the importers and shippers against the attitude of the Conference Lines."

2. Several witnesses in regard to this complaint were heard and as the enquiry proceeded representations regarding the operation of the system in other trades were received from the following quarters :—

- (a) The Crown Agents for the Colonies—with special reference to shipments on Government account.
- (b) The East Indian Grain and Oilseed Shippers' Association and nine other Trade Associations in the United Kingdom interested in the Indian trade, who made a joint representation against the rebate system as obtaining in the Calcutta homeward trade.
- (c) The following associations in India made a representation against the rebate system as applying in the trades from India to United Kingdom, South Africa, the Plate and West Coast of South America and to China, Japan and Java :—

The Calcutta Jute Fabrics Shippers' Association ;

The Baled Jute Shippers' Association ;

The Calcutta Wheat and Seed Trade Association.

- (d) The Associated Producers of East Africa and Uganda and, more recently, the Associated East African Chambers of Commerce at Nairobi.
- (e) The Ceylon Association (London).
- (f) The Association of West African Merchants (who forwarded a resolution against any reimposition of the system in that trade).

3. The question of the deferred rebate system as affecting the New Zealand trade was also brought to the notice of the Committee, in the course of correspondence with the Government of New Zealand respecting the current freight rates charged by the lines trading to New Zealand, in the shape of a recommendation, dated October 1920, of a Select Committee of the New Zealand House of Representatives to the effect that the system should be made illegal.

4. Moreover, at the Conference of Prime Ministers and Representatives of the United Kingdom, the Dominions and India in the summer of 1921, the position as regards rebates generally was discussed and strong representations were made by Dominion Ministers in regard to it, but no resolution was passed precisely for the reason that the matter was understood to be under consideration by the Imperial Shipping Committee.

5. The Committee, accordingly, decided that their enquiry which had hitherto been confined to the Australian trade, must be extended to Imperial Ocean Trades generally, and steps were taken to obtain the relevant evidence from the bodies and associations who had made representations and also from other representative bodies of traders and shipowners.

6. There was, however, one item of the complaint from the Australian Government which it was considered desirable to treat quickly and separately. This had reference to the alleged intimidation of shippers by threats on the part of shipping companies to shut out the cargo of shippers who did not ship exclusively by the Conference Lines. Our conclusion on this particular matter was given in an interim report issued on 5th August, 1921 (Cmd. 1486). It was to the effect that certain cases had occurred where cargo had been refused by certain Conference Lines although their ships were not full, on the ground that the shippers had not confined their shipments to the Conference. The Australian and New Zealand Conferences, however, emphatically repudiated any such policy of intimidation and it appeared that the cases which had occurred were due to unauthorised action on the part of subordinate officials in certain Conference Lines. We added in that report that we would investigate any complaint of such treatment which might be brought before us, but we have not received any further complaint under this head.

7. To return to the main question. Evidence has been taken by the Imperial Shipping Committee in regard to the deferred rebate

system as applying in inter-Imperial trades from the following witnesses :—

- (i) *On behalf of the Australian Government (in January and February, 1921).*

Mr. R. J. Turner, J. P., Chairman of Messrs. Turner, Davidson and Company, Limited, Brokers to the Commonwealth Government Line.

Mr. Lionel Frank, Managing Director of Messrs. Leopold Walford Transports, Limited, Loading Agents for the Commonwealth Government Line.

Mr. A. H. Wright, Chief Accountant in London to the Government of the State of Victoria.

Mr. C. T. McGlew, Managing Partner of Messrs. C. T. McGlew and Company, Merchants and Exporters in the Australian Trade.

The Managing Director of a firm of merchants in the Australian Export Trade who did not wish his name to be disclosed.

- (ii) *On behalf of the Crown Agents for the Colonies (October, 1921).*

Mr. T. D. Holt, O.B.E., Head of Shipping Department.

- (iii) *On behalf of Traders' Associations (November, 1921—March, 1922).*

Sir Stephen Demetriadi, K.B.E., on behalf of the group of Associations referred to under 2 (b) as engaged in the Calcutta Homeward Trade and in regard to that trade.

Mr. E. B. Tredwen, Chairman of the Australasian Merchants' Association, Limited, of the Australasian Section of the London Chamber of Commerce and of the Merchants' Committee of the London Chamber of Commerce (who, however, gave evidence only as a representative merchant and not directly on behalf of any of these bodies) in regard chiefly to the Outward Trade to Australia.

Sir Stanley Bois, on behalf of the Ceylon Association in London and in regard to the Colombo Homeward Trade.

Mr. W. Soper, on behalf of the South African Traders' Association and in regard to the South African Outward Trade.

Mr. W. W. Wilson, Chairman of the Jute and Linen Goods Merchants' Association, on behalf of the Dundee Chamber of Commerce and in regard to ocean trades generally.

Mr. W. H. Hooker, Deputy Chairman of the East African Section of the London Chamber of Commerce, and Mr. D. F. Basden, a member of the same Section, in regard to the East African Trade.

Mr. Montagu Laing, of Messrs. Sargood Sons and Ewen, mainly with reference to the inequality between the rebates in the

New Zealand Outward Trade and those in the Australian Outward Trade.

Sir Rhys H. Price, K.B.E., C.M.G., of Messrs. Peacock Brothers, Import and Export Merchants in South Africa, in regard to the South African Homeward Trade.

Mr. David Landale, of Messrs. Jardine Mathieson and Company, Chairman of the China Association, in regard to the Far Eastern Trade.

In addition, written communications were received from the West India Committee, the Manchester Association of Importers and Exporters and the British Imperial Council of Commerce who did not send witnesses to appear before the Committee.

(iv) *On behalf of the Shipowners.*

Rt. Hon. Lord Inchcape, G.C.M.G., K.C.S.I., K.C.I.E., Managing Director of the Peninsular and Oriental Steam Navigation Company, as regards the case of the Australian Government against the deferred rebate system.

Sir Alan G. Anderson, K.B.E., a Manager of the Orient Line.

Sir Percy Bates, Bart., G.B.E., Deputy Chairman of the Cunard and Associated Companies.

Mr. R. D. Holt, of Messrs. Alfred Holt and Company.

Sir Ernest Glover, Bart., as representing tramp-owning interests.

The last four witnesses were nominated jointly by the Chamber of Shipping of the United Kingdom and the Liverpool Steamship Owners' Association, who also furnished the Committee with a joint memorandum embodying their views.

8. The verbatim evidence of the witnesses has of course been duly recorded, but following our usual practice, which is largely based on the ground of economy, we have appended to this report only a summary of it (Appendix II) and not the evidence itself in extenso.

9. The whole question of Steamship Conferences and the deferred rebate system was exhaustively investigated by the Royal Commission on Shipping Rings which was appointed in 1906 and reported in 1909.* The main or Majority Report of the Commission gives detailed information as to the origin and history of Conferences and of deferred rebates and as to the features of these systems as existing in the various international trades at that time. It surveys in detail, and discusses at length, the whole of the problems involved and it concludes with certain specific recommendations to which we shall revert below. It was accompanied by an important Minority Report.

* Details of the Commission's publications, all of 1909, are as follows :—

Vol. I. Report (Cd. 4668).

Vol. II. Appendices (Cd. 4669).

Vols. III and IV. Minutes of Evidence (Cd. 4670 and Cd. 4685).

Vol. IV. Report of Sub-Commission upon evidence taken in South Africa, with Minutes of Evidence and Appendices (Cd. 4686).

10. In all the circumstances and having regard especially to the fact that, as shown below, the recommendations of the Royal Commission had not been exhausted or even to any considerable extent adopted, it became clear to the Committee that it would be best to treat the present enquiry as supplementary to that of the Royal Commission. Accordingly, it was decided to adopt for the purposes of this enquiry the evidence as given before the Royal Commission and in taking fresh evidence to pay particular attention to :—

- (a) Any changes which have occurred in the application or operation of the deferred rebate system since the date of the Royal Commission.
- (b) The manner in which or extent to which the burden of complaint against the system has altered.
- (c) Any steps taken to give effect to the recommendations of the Royal Commission.

11. In the first place it has to be noted that new or additional legislation against the deferred rebate system has since 1909 been passed in Australia, South Africa and the United States of America, viz. :—

(1) *Australia.*

The "Australian Industries Preservation Act, 1906," to which the Royal Commission referred as "containing provisions which might affect the operations of shipowners making use of the rebate system" has now been consolidated and amended into the "Australian Industries Preservation Act, 1906-10," under which rebates are definitely made illegal. This prohibition of rebates applies to all trades outward from Australia.

(2) *Union of South Africa.*

The South African Government passed, in 1911, the Post Office Administration and Shipping Combinations Discouragement Act which attacked the system of deferred rebates through the medium of the mail contract. It provides that the Governor-General shall not enter into any ocean mail contract with any person who gives any rebate upon condition of the exclusive shipment of goods by vessels of particular lines.

(3) *United States of America.*

The Royal Commission stated that "the system [of deferred rebates] is probably prohibited by the [U. S.] legislation directed not against shipowners in particular but against all combinations tending to create a monopoly." The system is now, however, made definitely illegal by the Merchant Shipping Act of 1916, as amended by the Act of 1920 (Jones Act), and the legislation appears to apply to shipments in both directions.

12. *Changes in the operation of the Deferred Rebate system.*

(i) As a result of the new legislation in South Africa it became necessary for the Union Castle Mail Steamship Company, Limited, who held the mail contract between the United Kingdom and South Africa, to discontinue the deferred rebate system and it was

also dropped by the other Lines in the South African Conference. It has been replaced by the "Agreement System" to which we shall have occasion to refer later.

Other changes that have taken place since 1909 are as follows :

(ii) *Australian Outward Trade*.—During the war and owing to causes arising out of the war the Commonwealth Government had become the owners of a considerable number of steamers and after the end of the war this Government Line started regular services in the Australian Trade. In view of the Commonwealth legislation referred to above this Line was precluded from becoming a party to the rebate system which the Conference continued to operate in the outward trade to Australia, so that shipment by the Government Line involved the loss of rebates, which on their part, however, the Government Line was ready to make good to the shipper on certain conditions. It is this position that occasioned the present complaint from the Australian Government and it is the most important development in regard to the commercial side of shipping with which we have to deal, with the possible exception of the South African agreement.

(iii) *Calcutta Homeward Trade*.—The Royal Commission in referring to this trade stated that "the bulk of the cargo shipped . . . is rough cargo such as linseed, wheat and jute, all of which is suitable for shipment by tramp steamers, and upon cargo of this kind it has not been found possible to impose the rebate system."* The deferred rebate system was, however, introduced into this trade for general or rough cargo in May, 1919, but not for tea, the freight on which is fixed by a separate agreement.

(iv) *West African Trade*.—During the war, the rebate system in operation in this trade lapsed. It was, however, reimposed about the beginning of 1922. This was done, we understand, at the request of some of the smaller merchants engaged in the trade, in face of the severe competition which they were experiencing from one of the largest groups in the trade who were in a position to load their own ships with full cargoes and also to get the ordinary liner rate when it suited them. The smaller men hope, it appears, by the re-imposition of the rebate system, to restore a measure of equality.

(v) *East African Trade*.—At the time of the Royal Commission, trade with East Africa was little developed and vessels called only irregularly. In time, however, the trade developed, more regular services were run and the rebate system was imposed in both the outward and homeward trades. During the present year the period of deferment has been reduced from six to four months, so that rebates on shipments made, say, during the first four months of the year become payable on September 1st of the same year.

(vi) *Straits Settlements Homeward Trade*.—In 1911, an agreement was arrived at in London under which the Conference undertook that once every three years the overlapping of rebates should cease and shippers be free to leave the Conference without

* Cf. Cd. 4668, paragraph 54 (1).

loss of rebates. This opportunity was given in 1911, 1914, 1917 and 1920.

13. As regards the composition and internal organisation of the Conferences, we have received no evidence to show that any fundamental changes have taken place therein, though the membership of certain Conferences has undergone some changes, notably owing to the disappearance of certain foreign lines as a consequence of the war. Moreover, no substantial alterations, other than those above mentioned, appear to have been made in the details of the deferred rebate system as applied in the several trades.

14. Having thus far dealt with the changes that have occurred in the operation of the deferred rebate system since the date of the Royal Commission, we have now to examine the evidence that the shippers have brought before us in support of their complaints against the system and that of the shipowners in reply. A full summary of all the evidence will be found, as stated in paragraph 8, in Appendix II (p. 31).

THE PRESENT MAJOR COMPLAINTS AGAINST THE DEFERRED REBATE SYSTEM.

(A) *Complaints of unduly High Freights and Profits.*

15. While some of the shippers' witnesses who appeared before us seemed to be actuated rather by the feeling that steamship Conferences had it in their power to press unduly on them than by any harsh treatment actually suffered, definite evidence was given by others as purporting to show that shipowners, by means of their hold over shippers through the rebate system, were able to, and did, charge unduly high freights, and thus make unduly high profits at the shippers' or consumers' expense.

16. The complaints in regard to freights which were alleged to be unduly high were based on certain comparisons; firstly, with the freights charged from Continental ports for the same destination and the same commodities; secondly, with the rates charged in competitive foreign trades—in particular the rates on linseed from the Argentine were put forward as showing that those from Calcutta for the same commodity were unfairly high; in both these cases the point of the complaint was that the freight rates set up as a standard were not subject to the rebate system; and thirdly, it was sought to show by reference to the Bombay-United Kingdom rates where again the rebate system did not apply that the Calcutta rates were disproportionately high. The full facts and contentions introduced in this connection on behalf of the shippers are summarised in Appendix II (page 31 *et seq.*), to which reference is invited. Similarly, in regard to the question of profits, this summary will be found to contain details indicating the general line of argument used by the shippers.

This part of the evidence has, we recognise, serious aspects for British trade and we have given it our careful attention. The shipowners' evidence in reply is dealt with in paragraph 20 and the attitude of the Committee in regard to it will be found at paragraph 31.

(B) *General Nature of Shippers' Attitude.*

17. The complaints made to us against the deferred rebate system as a whole follow in general the same lines as those made to the Royal Commission. Broadly, the main contention of the complainants is that the system enables steamship conferences to maintain a monopoly and to set limitations to the shippers' freedom of action. They point out that the shipowners in a Conference tie their customers to them by means of the rebate and are thus enabled to render it difficult for any other shipowner to start a service in their particular trade, and any shipper, through fear of the forfeiture of his accrued rebates, from taking advantage of any more favourable opportunity of shipment which may occur outside the regular lines. Thus, in effect, they maintain that the shipowners are able to achieve a monopoly through which they can unduly press on their shippers.

18. The complaint of the Government of the Commonwealth of Australia is of the same order. The Government contends that by means of the rebate system the lines comprised in the outward trade to Australia from this country prevent shippers from taking advantage of the service of the Government Line in the outward trade or, in other words, that the Conference has created a monopoly which it seeks to maintain to the exclusion of the Government Line.

THE SHIPOWNERS' REPLY TO THE MAJOR COMPLAINTS AGAINST THE REBATE SYSTEM.

19. In dealing with the shipowners' evidence given in reply to the complaints that have just been described, we propose first to present that which deals respectively with the particular complaints of too high freights and profits and with the general position of the rebate system arising out of the latter, and then to consider the advantages claimed by the shipowners to be bound up with the system.

(A) *As to Complaints of unduly High Freights and Profits.*

20. In the first place, as regards the facts put forward by the shippers to show that the Conferences by means of the rebate system were in a position to, and did as a matter of fact, charge unduly high freights and consequently make unduly high profits, the shipowners in every case contend that the instances quoted do not justify the conclusions which the shippers seek thereby to establish. A full summary of the facts and arguments brought forward in this way on behalf of the shipowners will be found in Appendix II (p. 41 *et seq.*). The shipowners' evidence generally brings forward additional factors in the situation which offer explanations of the anomalies, which in some cases, at any rate, are admitted to exist. For example, it was admitted that low Continental freights much cheaper than the corresponding British Conference rates had recently occurred, but it was stated that this was due to exceptional competition between foreign lines which has brought the rates in many cases below the true economic level, that is, below the real cost, and, of course, the situation has been made more difficult for British vessels owing to collapsed and falling exchanges. We are informed that in normal times Conference agreements kept Continental and British rates at a parity; this position had been disturbed by the war and its after effects, but there was now a movement

to re-establish it. In the cases of comparison of freight rates under the rebate system with rates in similar trades in which the rebate system did not obtain, the shipowners offered explanations based on the various particular factors affecting those trades, of which all that need be said here is that they go to illustrate the intricate nature of the business of running ships.

(B) *The Shipowners' General Attitude.*

21. With regard to the general nature of the shippers' attitude, the shipowners who gave evidence before us urged very strongly that the Conference and deferred rebate systems did not confer upon them a real monopoly, but only, as it were, a quasi-monopoly subject to very considerable limitations. They say that shippers are free to ship outside the Conference if they are willing to forfeit their accrued rebates, and further they urge that though the amount of the rebate might be as much as 10 per cent. of their freight business over a period of nine months or more, it will be so small in comparison with the value of the goods shipped that it would be insufficient to hold the shippers to them if they abused any advantages the system conferred on them. It is admitted, however, that in the case of a large shipper the accumulated rebates might amount to a substantial sum, which would be greater than the freight on a considerable consignment.

22. The Memorandum put in by the Chamber of Shipping and the Liverpool Steamship Owners' Association shows that on the general question the shipowners adopt a standpoint which is practically the same as that of the Majority Report of the Royal Commission. They contend strongly, moreover, that the present complaints against the system are not so strong as the complaints made to that Commission.

THE ADVANTAGES CLAIMED FOR THE REBATE SYSTEM.

23. The shipowners claim that they are enabled by means of the rebate system to confer certain advantages on their customers. The shippers readily admit these advantages, but they do not agree that they cannot be attained except through the rebate system. The most important of them are regularity, frequency, and efficiency of service, together with stability of freights, equality of treatment and abstention from shipment on owner's account. These advantages are not the subject of any explicit guarantee on the part of shipowners; they are customary and implicit in the system.

24. *The Need for Regular, Frequent and Efficient Services.*—It is generally admitted that the Conference Lines do supply regular, frequent and efficient services. As one witness put it to us, "shippers preferred small quantities of freight space at regular intervals." With certain particular exceptions, such as in the outward trades from Manchester (cf. App. II. Page 40) and in the East African trade (cf. App. II. Page 36), there was no evidence of any shortage of tonnage or lack of facilities which should be provided by the Conferences. It is also true that these features are equally present in certain trades where, although there are Conferences, no rebate system is in force (as to which see §38 below).

25. *Stability of Freights.*—The importance of stability of freights is obvious. It enables merchants to make forward contracts with

certainly and reduces the speculative element which traders dislike. The shippers who gave evidence were nearly all in agreement that stable freights were a necessity for modern trade. The shipowners point to the very great increase in tramp rates during the war period relatively to the corresponding increase in liner rates as a demonstration of the stabilising influence of Conferences. Though it appeared that the present system might tend to delay falls in freight which were justified by changed conditions, the shippers were generally fully prepared to acquiesce in this possibility for the sake of stability.

26. *Equality of Treatment.*—The shippers who appeared before us were again mostly of opinion that it was extremely satisfactory to them in their business to know that the freight rate is the same for all shippers. In the case of general merchandise, no case was brought to our notice where the general rule of equal freights for large and small shippers was not adhered to. It might happen that a large shipper could secure a reduction in the ruling rate, but where this was done the rate was also reduced for the small shipper irrespective of quantity.

27. There are certain exceptions to this rule as, for instance, in the case of large consignments of rails and similar commodities which are peculiarly fitted for carriage by tramps and chartered vessels. In such cases, shipowners have perforce to make contracts for their carriage at lower rates than those charged for a small consignment of the same nature, and shippers, generally, do not take exception to those restricted departures from the rule.

28. *No Carriage of Cargo on Ship's Account.*—It appears that in certain cases it was the practice, prior to the introduction of the rebate system, for shipowners when they found it difficult to provide sufficient cargo for their ships, to purchase cargo themselves and ship it more or less as a speculation in competition with the regular merchants. It is implied in the rebate system, although not explicitly guaranteed, that shipowners shall abstain from any such procedure, and the shippers regard it as important that this position should be maintained.

29. To sum up then, regularity of service, stability of freights and equality of treatment, together with abstention from shipment on shipowners' account, are the solid advantages which it is claimed by the shipowners can only be secured by the existence of Conferences and the rebate system or some equally effective tie. On the other hand, the shippers are not unanimous in agreeing that Conferences and their ties are a necessity without which the advantages could not continue. That stable and regular conditions are essential to the conduct of modern commerce is, however, clearly the view of the large majority of shippers, and with this view we find ourselves in entire agreement.

THE MAIN QUESTIONS AT ISSUE.

30. It appears to us, therefore, that the main questions we have to consider are what conditions are necessary to secure regular, frequent, and efficient services at moderate, equal, and stable rates of freight and what assurance of continuous support from shippers is necessary to enable shipowners to offer such services at such rates.

31. The question whether a particular freight is or is not unduly high involving, as it does, the consideration of very many highly

variable factors, is very difficult to answer. Even more formidable is the question of what is a reasonable profit. Thus to deduce any reliable conclusion from this part of the evidence would, in our view, necessitate a very searching investigation, and even if this were practicable it appears to us doubtful whether the results obtained would be of any general application or importance. It should, however, be added that during 1921, acting on a complaint by the New Zealand Government, we did investigate specifically the level of freights in the homeward trade from New Zealand. On that occasion we had before us definite audited information as to the out-goings and in-comings for a continuous series of round voyages in the trade, and in our Report (Cmd. 1564) we give our conclusion that the freights current at that time were not unreasonable.

(a) *Question of the Necessity for Conference Systems.*

32. It appears now to be a universal condition of the larger industries in all progressive countries that there should be a high degree of organisation among the chief companies, firms, or other units, and this condition is especially marked in industries which have to deal with transport. The necessity for such organisation obtains clearly in the case of liner services. They have to provide for the distribution all over the world of heterogeneous classes of goods, the circulation of which to an ever increasing extent constitutes an essential part of the world's economy. The requirements for this part of commerce are in marked contrast to those of bulk cargoes in general, where large quantities of the same kind of goods have to be carried at irregular intervals. The ships which cater for this trade are in the main separate units, but the liner service requires fleets of ships operating in unison and consequently large capital resources and a carefully perfected central administration.

33. It is clear that competition between individual liners or lines in the same trade would be quite incompatible with stability of rates and that the trade would in fact tend to return to the disturbed conditions which prevailed before the introduction of the Conference system, or to those characteristic of the tramp market. The shippers might for a time secure the benefit of low-cut rates, but there would inevitably be a strong tendency to abandon regularity in sailings and there would be no guarantee, such as obtains at present, of any general progress in the type of vessel plying and the nature of the facilities afforded. We consider, therefore, that the Conference system must be accepted as a necessary concomitant of modern commerce.

(b) *Question of the Necessity for a "Tie."*

34. It has been further strongly urged upon us by shipowners that as a general rule these Conferences could not remain in being and able to ensure to shippers the advantages referred to above unless they had some assurances of continuous support from their customers. In other words, they claim that the shippers in a particular trade should be, in some manner, tied to them. The argument is that under the deferred rebate system the shipowners feel themselves under an obligation to provide sailings at regular intervals, the vessels sailing full or not full, to keep freights stable and to treat large and small shippers alike. The fact that a trade was open to all shipowners would lead to the incursion of outside

ships at times when the trade was flourishing, or enable large shippers to charter to the detriment of smaller shippers, while retaining the right to use the liner service when it suited them. These outside ships would quickly disappear when the seasonal or periodic depression set in, leaving the regular lines to bear the brunt of this depression. The attitude of the Conferences is that they could not continue in times of bad trade to furnish regular services in which ships often sail with little cargo unless in times of good trade they are permitted to carry all the cargo offering. Without this assurance, they could not afford to send their ships only partially filled. Advertised sailing dates would go by the board and in the long run regularity of service would be seriously impaired.

35. Further, it is claimed that not only the regularity of the service, but also its efficiency would be impaired. Without the comparative security of tenure which the tie over their customers gives to them, shipowners would not have the same incentive to undertake building programmes and to furnish larger and faster ships or types especially suited to a given trade. The intermittent competitor would generally be of the tramp class, which, although not suitable for the transport of many kinds of cargo such as fine goods, which would still go by the more regular and better boats, would nevertheless be well able to carry a great volume of general goods of medium and low value, especially in cases where time is not an essential factor. The loss of this class of cargo would be of great moment to the regular lines and obviously involve considerable changes in the freights charged on the remaining goods or in the whole policy of the lines.

36. In this connection we thought it desirable to ascertain the views of the tramp owners themselves in regard to the deferred rebate system. The evidence given by their representative was to the effect that although tramp owners did not pretend to like the rebate system, which was admittedly aimed at excluding them, they did not hold any strong views in the matter so long as the system only applied to parcel or berth business and did not extend to whole cargoes; and that, generally speaking, tramp owners did not want to cut into berth business.

37. It is also clear that if a trade becomes open to competition by outside ships, the cutting of rates becomes a normal operation and all stability is destroyed. This would render it difficult for shippers to make forward contracts with any degree of certainty and would introduce that speculative element which is detrimental to modern commerce and which shippers desire to avoid. Further, individual lines anxious to secure their own positions as far as possible, would gradually be driven to make preferential contracts with customers controlling large amounts of cargo, and such contracts would naturally give a large merchant considerable advantage over his smaller competitors.

38. On the other hand, it is true that regular sailings are to be found in certain trades where nothing in the nature of a tie exists. Instances of such trades are given in the summary of evidence (Appendix II, page 47). On examination it will, we think, be found that the exceptional position is in these cases attributable to the peculiar circumstances of the trade, or that, though more or less regular sailings are given, the other desiderata are missing.

39. Most of the shippers who gave evidence before us were of opinion that some tie was necessary. Some, however, said they would be quite content to ship with an open freight market. There is no doubt that such a market would suit some shippers, especially those who ship large quantities of bulky goods, but their trade would approximate to that which is catered for by the tramp.

40. We have carefully considered the question of the necessity for a "tie," and it appears to us that there is a clear mutual obligation the shipper wants the ship on the berth without fail and the shipowner wants the goods on the berth without fail. Hence we find that it is necessary for the Conferences to have some assurance of continuous support from shippers such as will constitute an effective method of preventing intermittent and irresponsible competition for berth cargo by outside ships.

(c) Question of the Entry of a New Line into a Trade.

41. The case of a new line definitely organising itself to enter a given trade and provide a regular service is different. It is to such a line, rather than by chance shipments in vessels of the tramp class, that the shippers would look if they were dissatisfied with the service they were obtaining from Conference Lines. Shipowners urge upon us that the deferred rebate system is not sufficient to prevent the entrance of a well-organised line desirous of a permanent place in the trade provided that the shippers want it; and that if such a line offers on the whole better facilities than the established lines and is prepared, as is generally done, to reimburse the shippers for their loss in accrued rebates in return for their support, many shippers would gravitate to it. We think that there is some force in this contention. In the history of the deferred rebate system there have been numerous attempts by new lines to enter particular trades. Many of these have been successful and the new lines admitted to the Conference after a more or less protracted struggle. In some cases these lines were invited to enter the trade by the shippers, who have even at times organised mutual shipping companies themselves. On the other hand, it is conceivable that many shippers would be deterred from using an opposition line by the fear that the established lines would discriminate against them by, for instance, shutting out any cargo they might wish to send by these lines. Such a policy has, however, been expressly repudiated by the Australian Conference (cf. § 6).

42. These conclusions do not, of course, involve the proposition that the deferred rebate system is necessarily the only or the best form of tie whereby the shipowner can be assured of the requisite degree of support for his liner services, or that any tie can be devised to which there will not attach disadvantages in practice or potential abuses which must be provided against as far as possible. We have accordingly now to approach the questions: (a) whether there is any alternative to the deferred rebate system, and (b) what recommendations can be made with a view to minimising any disadvantages that may attach to that system or to any such alternative.

THE CONCLUSIONS AND RECOMMENDATIONS OF THE ROYAL COMMISSION ON SHIPPING RINGS.

43. Before entering upon a discussion of these matters, it will be convenient to refer to the conclusions of the Royal Commission on Shipping Rings and later to their recommendations. A short statement of their main conclusions is appended (Appendix III). These were not unanimous and were contained in a Majority Report, a Minority Report, and an important reservation made by Sir David Barbour. In the main, our present conclusions as to the necessity for the maintenance of the Conference system and for some form of tie coincide with those of the Royal Commission. They further found that the only alternative tie to the deferred rebate system was the system of preferential contracts which had been in operation before the introduction of the rebate system. The Commission did not approve this system at all, and most of the shippers who gave evidence before us were opposed to any reversion to it. Such contracts exist in but few trades now, having been replaced by rebate systems with varying periods of deferment on almost all routes on which general merchandise is carried.

THE AGREEMENT SYSTEM.

44. Since the issue of the Royal Commission's Report, however, a new method of tying the shippers has recently come into operation. We refer to the South African Agreement. When the South African legislation which we have mentioned above forced the liner companies trading to South Africa to relinquish the rebate system, an agreement was drawn up after negotiations between the South African Trade Association and the South African Shipping Conference. A copy of the agreement is attached as Appendix IV. The individual shippers who sign it agree to give their entire support to the regular lines in the Conference. In return, the lines undertake to maintain regular berth sailings at advertised dates, the ships to sail full or not full, and to provide sufficient tonnage for the ordinary requirements of the trade; and, further, to maintain stability of freights, which are definitely prescribed in the agreement, and equality to rates to large and small shippers alike. Arrangements are made for consultation between the Association and the Conference regarding any revision of freight rates and other matters, and also to meet any disturbances caused to the stability of rates through the cutting of rates by outside lines. The agreement is for one year and is terminable by either party at any time thereafter at six months' notice.

45. It will be seen that this agreement equally with the deferred rebate system fulfils a two-fold function. On the one hand, it ensures to the Conference the entire support of shippers over the period of the contract and on the other it explicitly ensures to the shippers the advantages to which they are entitled by implication under the rebate system. The shippers pay net freights and their adherence does not depend upon the accumulation of what they consider their capital in the ship-owners' hands; the *continuous* nature of the hold which the rebate system implies, and to which shippers object, disappears.

46. The shipowners did not regard the agreement system as such an effective tie as the rebate system mainly because it lacked its automatic character. In their view, it was difficult to bring all shippers in a trade under it, and the protection which the shipowners were able to afford to the shippers giving them exclusive support would be wanting unless all shippers signed the agreement. They did not think it was likely to be so effective for other trades as for the South African outward trade, where the shippers' interests were to an exceptional degree represented by their Association. They said that the agreement system had not been established sufficiently long for any definite opinions as to its value to be formed.

47. On the other hand, we gathered from the shipowners that at present the agreement in the South African outward trade was working not unsatisfactorily. The witness on behalf of the South African Trade Association, which represents merchants engaged in the South African trade, stated that they were well satisfied with the working of the agreement. As regards the extension of such a system to other trades, there was no conclusive evidence.

48. Impressed by the possibilities of the agreement or general contract system as an alternative to the deferred rebate system, we explored the idea of an option being given to shippers to choose between the two systems, and, as the attitude of the shipowners led us to believe that they were genuinely anxious to fall in with the wishes of their customers, the shippers, in any practical scheme, we brought this question of extending an option to shippers as between the agreement and deferred rebate systems specifically to the notice of the Chamber of Shipping of the United Kingdom and the Liverpool Steamship Owners' Association. In their reply they have expressed the opinion that the Conferences would be perfectly ready to go into the matter with their shippers if a majority of them pressed for the option (see copy of correspondence in Appendix V).

AN OPTION BETWEEN THE REBATE AND AGREEMENT SYSTEMS RECOMMENDED.

49. On further consideration we have accordingly come to the conclusion that in the adoption of such an agreement system as an alternative, a solution—or at least an avenue to a solution—of this vexed question of deferred rebates may be found. The deferred rebate system is plainly open to certain objections, and although the agreement system is equally open to objections, *we recommend that it should be given to shippers as a running option.* Individual shippers should have the choice (a) of binding themselves by means of an agreement over a certain period or by a running agreement subject to a certain period of determination or (b) of remaining under the deferred rebate system. Both systems could therefore be in operation simultaneously, but all shippers would be held by one or other method.

50. It must be understood that, in arriving at this conclusion, we do so without in any way committing ourselves to the suggestions as to details which are contained in the shipowners' reply. It is clear, however, that certain safeguards would be necessary. If a real choice

of systems is to be left to the shipper, particular care must be taken that as far as possible the net financial results, *i.e.*, the net freights and the net liability for breach of the conditions of either system, should be the same in both cases.

51. In the case of the South African agreement, no penalties are provided for any infraction of its terms by either party to it, though if anything occurs to disturb the stability and equality of rates and effective measures to protect the signatory shippers cannot be agreed upon, the shipper or the shipowner may withdraw from the agreement at short notice. Though this absence of penalties may correspond with the special circumstances of that trade, we consider that it would generally be necessary in other trades that the agreement should define penalties, whether by way of liquidated damages or other method, which would attach to breaches of the agreement by either party to it.

52. As regards the machinery whereby this option could be effectively given to the shippers, we have already stated that in our view the agreement must be with the individual shipper, but at the same time it is clear that the terms of the agreement must be settled between representative bodies of shipowners and shippers for each trade. The actual contract would be made in each case between an individual shipper and an individual line belonging to the Conference.

TRADERS' ASSOCIATIONS.

53. In this connection it is necessary to revert to the recommendations of the Royal Commission for dealing with any disadvantages or possibly abuses of power which might arise from the deferred rebate system. The conclusions common to the Majority and Minority Reports were, in brief, to the effect that shipping conferences and the deferred rebate system give the shipping companies powers which on occasion may exceed those necessary to enable them to maintain an organised service, and that the measures desirable to secure that those powers are not abused would be the formation of representative shippers' associations, the provision of facilities for enquiry, conciliation and arbitration, and a greater degree of publicity. The central feature of their recommendations was undoubtedly the formation of associations representative of merchants and shippers. They said "that most, if not all, of the serious abuses to which the [Conference] system is liable can be remedied by such counter-combinations on the part of merchants and shippers and that it is generally undesirable that the State should interfere to remedy or prevent grievances which by a reasonable effort can be prevented or remedied by the persons concerned." The experience we have had as a Committee during the past two years in dealing with questions arising between shippers and shipowners amply confirms this statement, which we therefore strongly endorse.

54. Nevertheless, we find that this salutary recommendation has been adopted only to a very limited extent, and consequently it has been impossible to put into practice the ancillary recommendations in favour of conciliation and arbitration. The existence of the Australasian Traders' Association and the South African Merchant Committee, now

the South African Traders' Association, which were set up before the Royal Commission met, in 1902 and 1892 respectively, show that it is possible to form such representative bodies of shippers. We understand that these two bodies work in close connection with their respective Shipping Conferences and that this co-operation has achieved good results.

55. The only bodies of importance formed on the lines recommended by the Commission and since its appointment which came to our notice are (1) the Manchester Association of Importers and Exporters, which was established in 1908, while the Commission was still sitting; (2) quite recently, and, at any rate in part, as a result of a recommendation from our Chairman, the East African Section of the London Chamber of Commerce has set up a Shipping Committee which has entered into discussion with the East African Conference as to freight rates and allied questions, and arrived, we understand, at certain satisfactory arrangements which, as already stated [cf. § 12 (v)], include a shortening of the period of deferment. Further, it has now been decided by the parties concerned to form in this trade a thoroughly representative association on the lines of those already existing in the South African and Australian and New Zealand trades.

56. Shipowners have told us that they welcome the formation of these shippers' associations with whom they can fully discuss conditions in the trade, because by this means they can become more fully aware of what their customers want and meet their wishes accordingly. On the other hand, it appears that these shippers' associations have been difficult to form on a comprehensive basis because of the jealousies and divergent interests of the shippers and the natural fear that they may have to divulge their business to their competitors. The above examples show that the task of bringing the shippers in a trade together is by no means impossible. Further we consider that if through the instrumentality of such associations the shippers were put in a position to exercise an option as to the system under which their freight business should be conducted and to settle the terms of any agreement that might be concluded as well as other questions of importance there would be stronger inducements to the shippers to see to it that efficient and thoroughly representative associations or committees were created for these practical purposes.

57. In conclusion then, our second recommendation is that *for every trade route the shippers should take steps to form representative Associations* whose function should be to meet the Conferences, their already constituted counterparts among the shipowners, with a view (a) generally to the discussion and amicable settlement of any outstanding differences and of questions of mutual concern as they may arise and (b) in particular to the exercise of the option, if desired by any appreciable proportion of the trade, between the rebate and agreement systems and the negotiation of the specific terms of such systems.

58. We consider it very important that the Associations mentioned above should be formed, not only in the Mother Country, but also in the Dominions, India and the Colonies. We think that shipowners should have direct relations with such Overseas Associations so as to facilitate mutual understanding and the discussion and settlement of differences.

Associations in Great Britain and in the Dominions would naturally be in close touch with one another and arrange for a frequent and regular interchange of views on matters affecting their trade. This would not fail to enhance the value of the work of each Association.

THE MINOR COMPLAINTS AGAINST THE DEFERRED REBATE SYSTEM AS AT PRESENT IN OPERATION.

59. So far we have been dealing with the general principles which underlie the deferred rebate system. We have, however, received certain minor complaints against the system as actually working, most of which had previously been brought before the Royal Commission. Several witnesses, for instance, complained of the additional labour which the system throws upon the shipper who may have to deal with it in several trades in which the periods of deferment and amounts of the rebate are different, while he has to keep his books open for a considerable time; and it is left to him to make his claim on the shipowner and also under the conditions laid down he is liable to forfeit his rebates if such claim is not made within a limited period. It is contended or implied, therefore, that if the system is retained it should be made simpler and more uniform, the period of deferment being reduced as much as possible, interest being paid on the rebates while held by the shipowner, and that these should be repaid by the shipowner promptly as they became due without the shipper having to claim them. Full details of these and other complaints and of the shipowners' replies thereto will be found in the summary of evidence (Appendix II, pp. 39 and 49).

60. We do not propose to make any specific recommendations regarding these minor complaints, as we think that they are of such a nature as can best be remedied by the methods we outline above, namely, by negotiations between associations of shippers and the Conferences. In the circumstances it need hardly be pointed out that complaints as to individual freights would also lend themselves to settlement through discussion. We consider, however, that a greater degree of uniformity in the details of operation of the deferred rebate system should be achieved and that the terms of the agreements to be negotiated should be settled on as simple and uniform a basis as possible. In this connection and for its own sake we would support the recommendation of the Royal Commission in favour of greater publicity in respect of the documents concerned.

THE AUSTRALIAN GOVERNMENT LINE.

61. With regard to the more specific complaint of the Australian Government, it is evident to us that the existence of the deferred rebate system in the outward trade to Australia, coupled with the Australian prohibition of such system, operates to prevent the conduct and the development of the trade by the two groups on amicable lines. On the one hand, we understand the Conference to say that, whilst they are perfectly ready to acquiesce in the claim of the Commonwealth Government Line to participate in the trade, such participation should be governed by the same conditions as apply to the Conference Lines. On the other hand, we understand, it is impossible for the Government

Line to adopt these conditions, having regard to Australian legislation and opinion on the subject of rebates. If, however, the rebate and agreement systems were instituted side by side in the trade as optional alternatives, it should be possible for the Commonwealth Government Line and the Conference to serve the trade in amicable concurrence on the understanding that deferred rebates allowed by the Shipping Companies would not be forfeited by reason of shipments with the Commonwealth Government Line, and that, on the other hand, shipments made by the Conference vessels would not constitute a breach of agreements made with the Commonwealth Government Line.

62. We regard it as very desirable that an effort should be made to find a solution on the lines indicated, and we would therefore suggest that negotiations between all the parties concerned should be set on foot to this end. We think that the suggestions made above will afford a sufficient means whereby the legitimate interests of the Commonwealth Government Line and the Conference Lines can be satisfactorily harmonised; but, should our anticipation prove unfounded, the question could without difficulty be referred back to this Committee by either party for further consideration and report.

CONCILIATION AND ARBITRATION.

63. We do not recommend legislation to enforce the option between the two systems. As already indicated, it is our view that conferences between the respective Associations of traders and shipowners will in general achieve the necessary measure of understanding and agreement in regard to any questions arising out of the deferred rebate system, the agreement system or the option to be given between them. To meet the exceptional cases of disagreement it will, we think, suffice, as recommended by both the Majority and Minority Reports of the Royal Commission, to provide for an appeal to an independent body whose powers would extend to conciliation on the application of one of the parties and to arbitration on the application of both parties.

64. Those Reports recommended that such powers of conciliation and arbitration should reside in the Board of Trade. We venture to suggest, however, that in view of the Imperial scope of the problem, it will be more appropriate if these powers were vested in the Imperial Shipping Board which this Committee has already recommended should be set up.* Among the contemplated purposes of such a Board were enquiries into complaints regarding Inter-Imperial ocean freights and conditions and, specifically, the exercise of conciliation between the interests concerned. Such a body in permanent session and with increasing experience of shipping conditions throughout the Empire would be well fitted to investigate disputes and, in the course of a continuous and careful survey to determine whether any further measures than those indicated in this Report may become necessary.

65. Until such a permanent Board has been appointed it might be convenient for the present Imperial Shipping Committee to exercise these functions of conciliation and arbitration in so far as they would

* Cf. Cmd. 1483. Report of the Imperial Shipping Committee on the Functions and Constitution of a Permanent Imperial Body for Shipping Questions.

fall within our existing terms of reference or any extension of them that might be deemed desirable. ✓

66. It is with great regret that we have to record the loss of our distinguished colleague, Sir William S. Meyer, G.C.I.E., K.C.S.I., High Commissioner for India, who died very suddenly on October 18, 1922. Sir William Meyer assisted in the deliberations of the Committee upon this Report until it was in an advanced stage and we think that there is no doubt that he would have been in complete agreement with the Report as finally settled.

67. We desire to place on record our indebtedness to our Secretary and Assistant Secretary, Mr. E. J. Elliot and Mr. R. D. Fennelly, whose services in connection with the preparation of this Report have been very valuable.

H. J. MACKINDER (*Chairman*).

G. GRINDLE.

H. LLEWELLYN SMITH.

PETER C. LARKIN.

H. LARKIN.

J. ALLEN.

GEO. BOWDEN.

KENNETH S. ANDERSON.

W. L. HICHENS.

T. HARRISON HUGHES.

KENNETH LEE.

JAMES W. MURRAY.

E. J. ELLIOT (*Secretary*).

R. D. FENNELLY (*Assistant Secretary*).

9. December, 1922.

NOTE.—Owing to his absence from this country, Sir Edgar Bowring has been unable to sign the Report.

APPENDIX I.

COPY OF CORRESPONDENCE with the Government of the Commonwealth of Australia regarding the Operation of the Deferred Rebate System in the Australian Outward Trade.

COMMONWEALTH OF AUSTRALIA.

Commonwealth Offices,

Australia House,

Strand,

London, W. C. 2.

15th November, 1920.

SIR,

Adverting to my letter of even date, I am directed by the High Commissioner to state that he has been requested by the Commonwealth Government to bring under the notice of your Committee a cablegram which was addressed to the Imperial Authorities by His Excellency the Governor-General on 9th July, 1919 (copy attached), regarding the Rebate System applied by Shipowners to the Australian trade.

I am to point out, further, that in many cases Merchants to-day fear to utilise the steamers belonging to this Government owing to alleged threats of victimisation by the Conference Lines if they do so, and that the Commonwealth Government is now taking the necessary action to prepare evidence and arrange for witnesses to bring the whole facts under the notice of your Committee.

I am to request you to be good enough to state the approximate date at which your Committee will be prepared to deal with this question as early as possible, as it is desired to make forward arrangements of such a nature as to enable the evidence to be presented in the most concise and up-to-date form possible.

I have the honour to be,

Sir,

Your obedient Servant,

(Signed) GEO. J. HOBGEN,

Acting Official Secretary.

The Secretary,

Imperial Shipping Committee,

Board of Trade Offices,

Great George Street,

S. W. 1.

(Enclosure.)

TELEGRAM from the Governor-General of the Commonwealth of Australia to the Secretary of State for the Colonies.

(Received, Colonial Office, 9th July, 1919.)

Following from Acting Prime Minister :— *Begins* : With reference to shipments by vessels of Government of Commonwealth of Australia line desire invite attention to deferred rebate system of shipping conference which provides for full freight to be paid in first instance and at end of 12 months provided shipper declares he has not departed from conference lines, he obtains rebate equal to 10 per cent. on freights paid during first 6 months of the 12. Shipowner thus retains right cause shipper forfeit 12 months' rebate if he wishes and shipowner further has always in hand 6 months' rebate. In case of "Bulla" Government of Victoria booked

consignment of explosives but in March withdrew booking which it was stated would involve forfeiture of £700 in accrued rebates from shipping conference on previous shipments this notwithstanding Government of Victoria had been unable during previous 7 months obtain space owing unsuitability of cargo for passenger ships or transports. Law authorities suggest for consideration of Imperial authorities that with a view to protecting Commonwealth funds legislation be introduced by Imperial Governments similar to Australian Industries Preservation Act 1903/10 which provides inter alia that any person who in relation to trade or commerce with other countries or among States either as principal or agent in respect of dealings any goods or services gives offers or promises to any other person any rebate refund etc. for reason or upon condition that latter person deals exclusively with any person shall be guilty of an offence (penalty £500) and every contract entered into of kind referred to shall be illegal and void. If such legislation impracticable suggest advantage might be taken include in functions proposed Imperial Investigation Board duty of enquiring into complaints from persons or bodies interested with regard to ocean freights facilities and conditions of inter-imperial trade or into any question similar nature referred to them by any of the nominating authorities.—
Ends.

MUNRO FERGUSON.

(Extract.)

COMMONWEALTH OF AUSTRALIA.

Commonwealth Offices,
Australia House,
Strand,
London, W. C. 2.

31st December, 1920.

SIR,

Adverting to your communication L.S.O. 52 of the 14th idem, I am directed by the High Commissioner to forward herewith copy of a communication received from the Prime Minister's Department in Australia under date 12th October, together with copy of the statement referred to therein.

* * * * *

I have the honour to be,

Sir,

Your obedient Servant,

(Signed) J. R. COLLINS,

Acting Official Secretary.

E. J. Elliot, Esq.,
Secretary,

Imperial Shipping Committee,
Board of Trade Offices,
Great George Street, S. W. 1.

COMMONWEALTH OF AUSTRALIA.

Prime Minister's Department,
Melbourne,

11th October, 1920.

M MORANDUM FOR
The Acting Official Secretary
in Great Britain.

With reference to your memorandum of 5th August, No. 436-4—48, on the subject of the Imperial Shipping Committee, I forward herewith for transmission to the Secretary of the Committee, a statement prepared on information supplied by the

authorities of the Commonwealth Government Line of Steamers, drawing attention to certain adverse discriminatory methods practised by the Conference Lines of Steamers, against shippers to Australia by the Commonwealth boats, with a view to the matter forming the subject of enquiry by the Committee.

(Signed) M. L. SHEPHERD,
Secretary.

(Enclosure.)

**STATEMENT REGARDING NON-GRANTING OF DEFERRED REBATES
BY CONFERENCE LINES TO SHIPPERS BY COMMONWEALTH
BOATS.**

In July, 1919, the attention of the Secretary of State for the Colonies was drawn to the fact that owing to the Shipping Conference Lines' system of Deferred Rebates the Commonwealth Government Line of Steamers had lost cargo withdrawn by the Victorian Government because that Government feared loss of their rebates.

Attention was further drawn to the Australian Law upon this subject, and a suggestion was made that advantage might be taken of the Imperial Investigation Board—now the Imperial Shipping Committee—to enquire into complaints on the matter.

Official advice has been received by the Manager of the Commonwealth Government Line of Steamers in Melbourne that the Conference Lines still continue their system of rebates, and in order to protect shippers who might lose accrued amounts through shipping by the Commonwealth Government Line, the latter has been compelled to announce, that in the event of such rebates being confiscated, they will be made good from the funds of the Line. Already one instance at least has occurred where such a payment has had to be made.

It is suggested that this question of the rebate system should be enquired into by the Imperial Shipping Committee, and evidence called respecting it.

It is further suggested the investigations of the Committee should be directed towards the fact that some Australian firms have intimated they have been informed by their London representatives of threats having been made to the effect that if their shipments go forward by Commonwealth Government Line vessels, the Conference Lines will find no space for them in their vessels. These firms have declined on this account to give any definite instructions that the vessels of the Commonwealth Government Line are to be used for their goods. In addition to cases where definite statements are made, there has been brought under notice by at least eight firms the fact that they fear the Conference Lines will take reprisals against them and on this account are unable to direct shipments by the Commonwealth Government Line.

Opportunity might be taken of emphasising the fact that the Commonwealth Government Line has prevented increases in freights both to and from Australia, and has been instrumental in securing more reasonable terms on Bills of Lading for shippers than would otherwise have been the case, and that in view of the facts set out above, a full investigation should be made by the Imperial Shipping Committee with a view to ascertaining whether some recommendation should not be made to the British Government which will protect alike the interests of the Commonwealth Government Line and also the interests of importers and shippers against the attitude of the Conference Lines.

APPENDIX II.

SUMMARY OF EVIDENCE GIVEN BEFORE THE IMPERIAL SHIPPING COMMITTEE ON THE SUBJECT OF DEFERRED REBATES.

The following is a summary of the evidence given before the Imperial Shipping Committee by the witnesses on behalf of shippers and shipowners in the matter of the deferred rebate system.

The evidence of the shippers is given first. It has been summarised under the following four heads :—

- (A) Evidence as to matters of fact which shippers adduced regarding freights and profits to show that shipowners, by means of powers obtained through the conference and rebate systems, were enabled to press them unduly.
- (B) Evidence as to the general principles underlying the deferred rebate system.
- (C) Evidence as to certain minor complaints arising out of the actual operation of the system.
- (D) Evidence as to suggested remedies.

The evidence of the shipowner is summarised on similar lines, and the paragraphs bearing on a particular point are numbered identically in both sets of evidence.

EVIDENCE GIVEN ON BEHALF OF THE SHIPPERS.

A.—DEFINITE COMPLAINTS AS TO FREIGHTS AND PROFITS.

(1) Comparison of freight rates under the rebate system, with rates for Continental shipments.

(a) Examples were given of competitive rates from the Continent to Australia operating in January 1921, of which the following may serve as types :—

From Antwerp : Glass at 78s. per ton, as compared with 100s. from the United Kingdom.

From Antwerp : Coffee and chocolate, 94s. 6d., as compared with 125s. from the United Kingdom.

From Gothenburg : Paper, 41s. per ton measurement, as compared with 80s. from the United Kingdom.

These, it was stated, were properly equivalent rates, and the difference in favour of the Continent was ascribed to the existence of the rebate system here in Great Britain and to its non-existence in respect of the trade from the foreign ports in question.

(b) It was pointed out that the rate to Hamburg from Calcutta had been from 25s. (December 1920) to 15s. (March, 1921) lower than that to London, which was attributed to the fact that there was no Conference in the Hamburg trade, and not to any cheaper facilities at the German port. Prior to the war the German rate had been the higher by 2s. 6d. when the general level was about 20s.

(c) Very low quotations had been obtained by one witness in December, 1921, for shipments from Antwerp for Pernambuco, viz., 40 francs, as compared with 90s. plus 10 per cent. from United Kingdom; the high level of the British rate in face of this competition was attributed in great measure to the deferred rebate system.

(2) Comparison with rates charged in competitive foreign trades.

It was further claimed, in one or two cases, that the high freights charged by Conference Lines led to diversion of trade; in particular, that shippers of Indian linseed had been handicapped by the high freights from Calcutta in their competition with the Argentine trade, where there were no rebates. Figures were given to show

that if the Calcutta freight rates had been on the same basis as the Bombay rates [as to which *see* sub-paragraph 3 (b) below] the difference in the London price, though still slightly in favour of Argentina, would not have stopped business from Calcutta.

(3) Comparison with rates charged by Conference Lines in other trades where the Deferred Rebate System does not obtain.

The main comparisons made were in respect of:—

(a) *Australian Coastal Trade.*

The following figures were given to show the relation of the rise in the general level of freights in the Australian trade to that in the Australian coastal trade:—

Homeward Wheat Freights.

Pre-war	25s. (presumably by liner).
September, 1920	£9
October, 1920	£7
February, 1921	£5

Coastal.

1900	5s.
1913-4	11s. 3d. to 15s.
1921	20s.

[It was not stated to what commodity these coastal freights applied nor between what ports, but the distance was referred to as 500 miles.]

(b) *Calcutta-United Kingdom trade as compared with Bombay-United Kingdom trade.*

Rough Cargo.—The following figures were furnished by Sir Stephen Deme-triadi comparing the rates from Bombay where no rebate system existed and from Calcutta where it had been introduced in May, 1919:—

	Bombay.	Calcutta.
1st December, 1920	56s. 3d.*	115s.
15th December, 1920	43s. 9d.*	115s.
3rd January, 1921	31s. 3d.*	85s.
15th January, 1921	31s. 3d.	70s.
1st February, 1921	31s. 3d.	70s.
15th February, 1921	31s. 3d.	55s.
1st March, 1921	31s. 3d.	55s.

The voyage from Bombay took four weeks as against five weeks from Calcutta, and therefore it was urged that the Calcutta rate should only exceed the Bombay rate which was regarded as being governed by the world freight market by a quarter, quite apart from terminals. In November, 1921, the rate from Calcutta was 50s. as compared with 31s. 3d. from Bombay. Pre-war the rates were 20s. and 15s. respectively.

Tea.—The same witness explained that at the time he was giving evidence the shipment of tea from Calcutta was governed by an agreement in accordance with which the freight rate was based upon the rough cargo rates, and he contended that the rebate system introduced soon after negotiations for the agreement had been concluded had been used to keep the rough cargo rates unduly high with the consequence that the tea rate was also kept at an unduly high level.

He admitted that during the months from February, 1921, onwards, the ship-owners made five reductions in the contract rate though only after pressure by the Association and *ex gratia*.

* The actual quoted freights are 45s., 35s., 25s., but these relate to the ton of 16 cwt. or 40 c. ft. and they have therefore been increased by 25 per cent. to equate them with the Calcutta freights on the basis of 20 cwt. or 50 cubic feet to the ton.

(c) Ceylon-United Kingdom trade as compared with Calcutta-United Kingdom trade.

A table of the comparative freight rates on tea from Ceylon and Calcutta over a long series of years was put in by Sir Stanley Bois which showed that (a) prior to 1904 the Ceylon rate had been considerably below the Calcutta rate, (b) that the rebate system having been introduced into the trade in 1902 the Ceylon rate became equal to the Calcutta rate in 1904 and above it in 1905 until April, (c) that from April, 1905, to 1915, with a slight exception, the Ceylon rate was again below the Calcutta rate, (d) that during the war the Ceylon rate went up more rapidly than the Calcutta rate, and (e) that since the war the Ceylon rate has been generally above the Calcutta rate and only in November 1921 did it go below it (Ceylon 60s., Calcutta 61s. 3d.). In this connection it had to be remembered that Calcutta shippers had a contract which fixed their rates on the basis of the rates on rough cargo and which prevented the shipowner from making any increase in the Calcutta rate, whereas Colombo had no contract at all, but the position of the witness was that, in view of the fact that Ceylon was nearer to the home market, they ought to have an advantage, say 2s. 6d., over Calcutta, or at any rate that they should not be placed at a disadvantage.

The witness was asked if he could offer any explanation as to why the Colombo rate was now below the Calcutta rate. He said that the Conference "fix the rates practically arbitrarily"; he could offer no explanation beyond the fact that his Association had continually been in communication with the Colombo Conference and had been met by reductions in freights.

(4) Comparison of estimates of the cost of working vessels on the Australian run and of the profits that should thereby be earned.

Estimates of the working costs and the profits of steamers in the Australian trade were furnished by Mr. R. J. Turner based on voyages of a 10,000 ton dead weight vessel in January 1921. He estimated that the expenses of a 10-knot tramp of that capacity on an outward voyage in ballast would be £12,600 and for a 13 knot cargo liner £14,000. The expenses for the homeward trip with full cargoes made up of meat, concentrates and wool, would be £36,000 and £38,000 respectively. The net profits on the round voyages would be £19,500 and £16,500 respectively. Similarly assuming an outward voyage with a full cargo in the case of the cargo liner, the expenses would be £30,150 and the outward freight £13,250, leaving a profit of £15,800. From these and similar calculations the witness deduced that whereas for a cargo liner 61s. per ton as an average outward freight would fairly cover the cost, the freight actually charged was an average of 92s. 6d. per ton (the actual freight charges varying from 60s. to 125s.), and that the estimated percentage per annum of profit on outward cargo only, based on a pre-war value of £170,000 for the vessel would be 42 per cent., or based on a war value of three times as much, 8 per cent. The corresponding percentages for voyages outward and homeward with cargo both ways and out in ballast and with cargo homewards were also given. These estimates were arrived at on the assumption that full cargoes are obtained except, of course, for ballast voyages, and it was not thought necessary in them to make any allowance for possible laying up.

(5) The actual profits and financial position of the shipping companies concerned in the Australasian trade.

Mr. R. J. Turner also supplied statements in regard to the financial position of the Peninsular and Oriental Steam Navigation Company and certain of their subsidiary companies and certain other companies in the Australasian trade with a view to showing that the Peninsular and Oriental Company specially have been able to increase their reserves and fleets inordinately at the expense of the shippers. The information he

put forward in regard to the Peninsular and Oriental Company and its fleet may be summarised shortly as follows :—

Year.	Paid up Capital.	Debentures.	Estimated value of the fleet.
	£	£	£
1900	2,320,000	800,000	6,826,750
1907	2,320,000	1,800,000	10,422,275
1920	6,431,120	1,495,880	26,243,170

The last figure for the value of the fleet refers only to the vessels owned directly by the Peninsular and Oriental Company, although it appears that the figure for capital includes many large issues of stock which were made on the acquisition of the British India Company's fleet and other important mercantile fleets. The value taken is the estimated cost at the round figures of £25 per ton for pre-war buildings, £40 per ton for buildings in 1914-15, and £75 per ton for subsequent buildings. The witness also gave the dividends paid by the Company; he did not appear to contend that these had been in themselves excessive or that the policy of writing down tonnage and putting profits to reserve was a bad one, but he maintained that this policy had been overdone.

It was admitted that the business of the Peninsular and Oriental Company was very largely with Asiatic countries and that their participation in the Australian trade could not be responsible for any considerable portion of their profits, but the witness contended that the rebate system was applied by them equally in their Indian and other trades, and his general conclusion was that the profits of the Company had been very considerably swollen by means of the rebate system, or in other words by the monopoly they enjoyed. Similar information was put in as to the financial position of shipping companies engaged exclusively in the Australian and / or New Zealand trades, and reference may be made to that in respect of two of them, one owned largely by the Peninsular and Oriental Company and one independent of them, except as being a member of the same Conference.

The comparative figures for the first Company, the Oriental Steam Navigation Company, were stated to be as follows :—

	£
1917. Capital	319,340
Bonus Issues	99,770
Debentures	503,900
Value of Fleet and Investments	2,210,837
1920. Capital (issued for cash)	636,050
Bonus Issues	620,210*
Debentures	382,250
Value of Fleet and Compensation for Lost Steamers and Investments at Cost	2,432,464

The General Reserve was £1,000,000 and Repair and Renewal Fund £300,000.

The Dividends paid are stated to have been from 1911 to 1915 50 per cent. bonus, 1915-16 20 per cent. bonus, and from 1916 to 1919 15 per cent. free of tax. The later dividends have been 15 per cent. free of tax for 1920 and 12½ per cent. free of tax for 1921, i.e., for the year ended 30th June in each case.

* It is understood that this figure should be £520,219.

The second company, the Commonwealth and Dominion Line, is stated to have been incorporated in 1914 with a capital of £1,991,544, all issued for consideration other than cash, and its fleet at the outset to have consisted of 25 steamers of 168,329 tons gross valued by the witness at £11 15s. per ton dwt. or nearly £2,000,000. In 1920 though the capital had been increased by £6,008 only the fleet had grown to one of 29 steamers of 224,066 tons gross valued at £4,730,229, the post war tonnage being put at £30 per ton gross, but this figure was only reached by including about 50,000 tons *building*, exclusive of which the value would be about £3,200,000.

The witness was only examined on the details of the information supplied in respect of the P. and O. Company.

On the other hand Mr. E. B. Tredwen was not of opinion that the average level of freights was too high. He thought that if they were, it would be reflected in the companies' earnings. While admitting that he knew nothing of the Calcutta trade he thought that the complaint of some merchants regarding high freights in that trade might be well founded because it suited them to obtain the lowest rates, and they were not affected by fluctuations; there were other merchants, however, including himself, who were seriously affected by fluctuations and preferred a stable level.

B. EVIDENCE AS TO THE GENERAL PRINCIPLES UNDERLYING THE REBATE SYSTEM.

(1) The General Question.

As regards the general question, shippers object to the limitations to their freedom of action which the system imposes. The Crown Agents were anxious to be able to secure the most favourable rates of freight for full cargoes, especially of railway materials; in general their main objection was that the rebate system hampered them in bargaining with the shipowners for the lowest rates of freight. Similarly the West India Committee state that their objection to the system is "that it is designed to prevent shippers, by the threat of forfeiture of accumulated unpaid rebates, from availing themselves of opportunities of shipping at low rates of freight by steamers which may be loaded in competition with the established lines," and a Special Committee of the East African Section of the London Chamber of Commerce, who regarded the rebate system as advantageous on the whole, postulated certain conditions of which the first was that shippers should be permitted to take advantage of outside tonnage if offered at a time when no Conference steamship is likely to be available.

Mr. Tredwen thought that the amount of the rebate was the measure of the extortion which the Conference would exercise and if the shipowner was oppressive, opposition would be started, as had been done before in the Australian and New Zealand trades. While up to the point where it would be worth while to to sacrifice the rebate and organise or use outside services, there was a possibility that a Conference might tend to take what profit it could from the fact that it was a monopoly, the witness said the Australian Conference had not done so and he did not think they would do so. He agreed that refrigerated tonnage in, *e.g.*, the Australian and New Zealand trades, did enjoy an effective monopoly because of the great expense in fitting such vessels.

(2) The advantages derived from the system.

With certain exceptions the shippers considered that the deferred rebate system enabled the shipowners to press unduly on them, but they admitted that under the system they obtained important advantages as follows:—

(a) *Stability of Freights.*

Mr. Tredwen was very emphatic on the advantages of having stable rates. He said that before the introduction of the rebate system, freights were subject to sudden fluctuations. Under the rebate system, however, rates were stable unless for progressive reductions or increases. The fluctuation of rates led to sudden changes in the value of imported stocks. He admitted that he was looking at the question from the merchants' and not the consumers' point of view.

Mr. Soper said that the majority of traders wanted stability of freights and regularity of service. Asked whether traders had actually asked for rates not to be reduced in order that the value of their stocks might not depreciate, he said that he would not go so far as to agree to that but some traders might say "we will not worry about this just at the moment."

Great importance was attached by Mr. Landale to stable freights in the Far East trade as shipments both ways by liners were in small parcels and a fluctuating rate would make business difficult.

As regards homeward trade, Sir Stanley Bois, referring to Colombo, said that stability of freights was very important, that it was not satisfactory to have to speculate in forward freights. Although prior to the introduction of the rebate system lower freights had ruled, and notwithstanding that if the rebate system were abolished, it would have, in his opinion, the effect of bringing down the average rate of freight very considerably, he preferred the certainty that the rebate system introduced.

Steady rates of freight were stated not to be of importance to the Crown Agents for the Colonies.

(b) *Equal rates for all shippers.*

Mr. Tredwen said that before the rebate system came into the Australian trade there were specially favourable freights for big shippers but now the rates were the same to all.

As a specific example of the value attached by merchants to the deferred rebate system as a means of securing uniform rates of freight for all shippers, large and small, it was cited that recently the West African Conference had been asked on behalf of some 50 to 100 small traders to re-introduce the deferred rebate system. These traders were, it appears, experiencing the severe competition of a large group who were chartering full cargoes at 10s. to 12s. 6d. a ton cheaper than the liner rate, but also getting the ordinary liner rate when they wanted it. [It has since been announced that the deferred rebate system has been re-established in this trade (January, 1922).]

Sir Stephen Demetriadi claimed that in the Indian trade before the system was introduced there were equal rates for all shippers, and although large shippers, by offering large quantities, could obtain a lower rate, this rate became an open rate to all, and the small shipper benefited as well. The witness admitted, however, that he could not say that there had not in the past been contracts made for big quantities at a lower rate than the open rate. The Associations represented had not considered the question of differential rates, and he would not commit them to the view that they should be made illegal also, should the rebate system be prohibited by law.

(c) *Regularity of Service.*

It is generally admitted that the Conference Lines supply frequent, regular and efficient services; most witnesses were keenly alive to the necessity for such services, and admitted that something must be paid for them. The only complaint in this connection which has been received by the Committee is in the case of the East African trade, in regard to which Mr. Hooker represented that the vessels of the Conference Lines called at irregular and long intervals and were delayed long in loading. In the case of the Australian trade, the efficiency of the service was generally admitted and even emphasised, one witness stating that he would not as a regular shipper care to rely on time-chartered boats, and that even if the rebate system did not exist shippers would not as a general rule charter. Mr. Turner complained, however, regarding this trade that when the Conference put on a slower boat than usual they did not charge any less freight.

(d) *No Carriage of Cargo on Ship's Account.*

The evidence of Mr. Tredwen on this point was to the effect that in the days before the introduction of the rebate system it was customary for shipowners on occasions to buy goods on their own account to fill up their ships, thus competing with the merchants, whereas under the rebate system it is tacitly understood that shipowners will not make any shipments on their own account. Mr. Tredwen

knew of no instance of any such shipment under the regime of the rebate system. Sir Stephen Demetriadi, questioned as to the possibility of a reversion to the practice of shipment on owner's account in the event of the abolition of the rebate system, suggested that the custom of abstaining from this practice would persist. He also stated that no attempt had been made to purchase cargo on ship's account in the Calcutta homeward trade before the rebate system existed in that trade.

(3) The necessity for a tie.

There was no agreement, however, on the question whether the deferred rebate system or some such tie was necessary to maintain the frequent, regular and efficient services necessary for modern commerce. In the case of the Australian trade it was held by Mr. Turner and others that the liners had fair cargoes all through, and that a regular service could be obtained without the rebate system; on the other hand, Mr. Fredwen stated that in this trade vessels were rarely full as regards outward cargo and attributed the maintenance of the service to the rebate system. It appeared further that some reliance was placed by the other witnesses in regard to the Australian trade on Government action to secure that if the rebate system did disappear the effect would not be the discontinuance of regular services.

Mr. Soper thought that it was necessary in the interests of the general run of traders for the shipowners to have some hold over their customers to secure a regular service. Personally, he did not fear an open freight market because there would still be opportunities to ship, and although some goods were wanted regularly, speedy despatch was not essential for the great bulk of goods.

Sir Stanley Bois, referring to the carriage of Ceylon tea, said that shippers preferred small quantities of freight space at frequent intervals and the regularity of liner services was most important. He also said that, as he understood it, the Conference felt a certain obligation to give them the space required for moving their cargo, and instanced that cargo had on occasion been shut out in Calcutta to leave room for Colombo produce. Prior, however, to the introduction of the rebate system services were quite regular, and though on balance he favoured the retention of the rebate system he thought there would still be regularity in the particular case of Colombo without the rebate system.

Sir Stephen Demetriadi held that the rebate system was not necessary in order to maintain a regular, frequent and efficient service. Such a service had in fact been supplied in the Calcutta homeward trade until 1919 and still obtained as regards Bombay, without any such system. He laid stress on the fact that a regular, frequent and efficient service was maintained by the Ellerman-Bucknall Line between India and America without any rebate system, which was illegal under American law. This service was regularly supported by the shippers who were satisfied with it and with the rates; and attempts made by shipping Board boats to enter the trade by cutting rates had not been successful.

Mr. Landale held that some tie was necessary in the Far East trade and could suggest no alternative to the rebate system though he preferred the prompt payment of rebates every six months without any deferment. He held that the system had not prevented competent steamship lines entering a trade if they wished to and the merchants did not object.

Mr. Basden said that in the East African trade he did not think that a regular service could be obtained without a rebate system as the cargo was meagre at times and irregular in amount. If tramps were allowed to come in and carry away the homeward cargo, the outward service would naturally suffer as the two halves of the round voyage hung together.

As regards the South African homeward trade, Sir Rhys Price stated that since the abolition of the rebate system, it had been run without any tie and though the outward agreement had had to a certain extent a steady effect, the position was not altogether satisfactory. The witness favoured for the homeward trade an agreement system reinforced by a rebate system and administered by a Standing Joint Conference of shipowners and shippers, thus giving the shippers a voice in the fixing of rates and other terms and conditions. He preferred this to the agreement system

which would be ineffective unless all and especially the largest shippers adopted it. In the past, he said that the rebate system had not kept out new and efficient outside competition though it kept away spasmodic competition.

The West India Committee state their belief that regular services could be maintained "without any system of preference for regular customers such as is associated with the idea of deferred rebates," and in support add that "the legal prohibition of the deferred rebate system as applied to steamers trading to the ports of the United States of America, Commonwealth of Australia and Union of South Africa has not had the effect of depriving those ports of adequate steamship services." Mr. Wilson expressed the opinion that without the rebate system there would be more frequent services of regular liners, because the abolition of the system would lead to an increase in trade.

(4) Alternative Ties to the Rebate System.

The following alternative methods of securing that shippers should give their custom regularly to the Conference Lines were brought to our notice:—

(i) *The Agreement System.*

Mr. Soper explained at some length the agreement which had been signed by the South African Conference Lines and shippers in that trade. This agreement (a copy of which is printed as Appendix IV) has taken the place of the deferred rebate system, which was dropped on account of South African legislation, although the rebate system still applies to shipments by the same vessel to Mozambique ports. He said that the South African Trade Association were very well satisfied with its working, and, in his opinion, would welcome its extension to Mozambique ports. The witness interpreted the main clauses of the agreement as follows:—

- (a) It gives equality of rates and stability of freights to large and small shippers alike, except that it does not apply to large parcels of cargo, not being merchants' berth cargo, and special rates for large parcels are quoted to mining companies, associations, municipalities, etc., without reference to the Trade Association.
- (b) The Association regarded their support as contingent on the Lines carrying the goods at "reasonable rates." If they did not regard the rates as reasonable, either there was to be arbitration or the signatory shipper can give six months' notice to terminate the agreement. The Lines were bound to consult the Association before making any general alteration in rates, but could raise rates on particular commodities without notice.
- (c) In the event of competition offering lower rates, the Lines are bound to protect the signatories, who may withdraw after 30 days' notice if they consider the protection inadequate. Recently foreign Lines had started loading to South Africa, and had quoted low rates. The Conference had met their shippers by reductions in their tariff rates on various classes of goods in order to meet foreign competition, and in addition allowed a temporary reduction in freights on other similar goods sent by boats loading, first of all within a week each way and now within a fortnight each way, of a boat sailing from the Continent.

The witness added that there was nothing to prevent a shipper outside the Association concluding a similar agreement with the Lines.

Mr. Basden favoured the agreement system for the East African trade, provided that the Conference did not still charge the primage,* which at present constituted the deferred rebate, and retain it themselves. He thought, however, it would be difficult to secure the express adhesion of every shipper in the trade.

Mr. Tredwen preferred the "freedom" of the rebate system to the agreement, which he considered was not so effective in preventing competition.

*This 10 per cent. primage has recently (August, 1922) been embodied in the freight, but the deferred rebate of 10 per cent. still remains, and the net freight remains practically unaltered.

Mr. Wilson said that he thought the members of his Chamber of Commerce (Dundee) would be prepared to enter into an agreement like the South African, and would favour making the principle a general one.

Mr. Hooker had no knowledge of the South African agreement, but he favoured agreements in general.

Sir Rhys Price, although he favoured an agreement system reinforced by a rebate system for the homeward trade from South Africa, agreed that if an agreement embracing *all* the shippers were arrived at the rebate system would hardly be necessary.

(ii) *Contracts over a period.*

The only case of a general freight contract brought to our notice is in the Calcutta tea trade where, as already mentioned, the freight, at the time when evidence was given, was fixed at the average rate ruling on rough cargo plus a certain flat addition. Sir Stanley Bois said that he would not favour a contract on similar lines for Colombo but preferred to make arrangements according to circumstances from time to time.

C. OBJECTIONS TO THE DEFERRED REBATE SYSTEM AS AT PRESENT IN OPERATION.

(1) *The length of period of deferment and delay.*

The longer the periods adopted in connection with the deferred rebate system the greater the tie. The East African Committee referred to above stipulated as one of the conditions of acceptability of the system the payment of the rebates at shorter intervals. Other shippers said they would be content to ship under a system wherein the rebate would not be "deferred," i.e., for a further period, but paid promptly at the end of each period (of three or six months) in respect of the shipments made during that period. In the case of regular shippers sufficient rebates would quickly accrue to maintain loyalty to the Conference.

Complaint was also made by Mr. Landale that even when the deferred rebate was due, a delay of months might occur in checking and adjusting the claim. It was maintained by Mr. Wilson that the shipowner ought to make out the statements promptly at the end of each period and pay the accounts to the parties who had paid the freights without the latter being under an obligation to claim the rebates. He also pointed out that under the conditions laid down, the shipper is liable to forfeit his rebates unless his claim is made within a limited period. Shipping companies ought to be obliged to make an annual return of unclaimed rebates.

(2) *The question of payment of interest on the deferred rebate.*

Several witnesses referred to the effect of the rebate system in keeping large amounts of the shipper's capital locked up. Mr. Tredwen thought this could be met if the shipowners paid interest on the deferred rebate, and said this was done in the Australian trade at the rate of 5 per cent. and would probably be agreed to in other trades if pressed for; other witnesses also urged that interest should be paid.

(3) *Complexity.*

Evidence was given as to the trouble and clerical labour that devolved upon the shipper, partly because of the inherent deferred nature of the system, and partly because of the variety of the several systems under which the shipper had to work and claim his rebates.

With reference to the East African trade Mr. Hooker complained of the amount of unremunerative labour which the system entailed upon the shipper or merchant, and the tendency towards not quite honest practices, such as the retention of the rebate by the agent where the consignee, to whom the freight plus rebate had been charged, was not careful to insist upon its return to him. In the Far Eastern trade, however, the evidence of Mr. Landale was to the effect that such practices did not occur.

(4) Alteration of Rebate Form without notice.

A case was brought to the notice of the Committee by Mr. Wilson in which the rebate claim form for the Brazilian trade had been altered by the *ex post facto* introduction of two additional ports to the list to which rebates applied without apparently any notice of this extension having been given to the shippers concerned.

(5) Enforcement of Rebate Conditions in respect of Shipments from Ports not served by a Conference.

The Manchester Association of Importers and Exporters communicated in writing their opinion that shipments from a port not served by Conference Lines should not be the occasion for the forfeiture of rebates since the Conference Lines did not offer any direct facilities. From correspondence which ensued, it appeared, however, that the Association had not of late approached the lines with any request for additional facilities. A similar point had been raised in connection with Dundee before the Royal Commission, but Mr. Wilson said that no difficulties arising from any prohibition upon the direct shipments from Dundee had been met with, though this port is not served by the Conference Lines.

(6) Comparison of Rebates in New Zealand and Australian Trades.

Mr. Laing complained that although the freights to Australia and New Zealand were the same and the same primage (10 per cent.) was added, the rebate in the Australian trade was 10 per cent., i.e., the whole of the primage, while in the New Zealand trade it was only 2s. 6d. per ton, representing at present rates a difference of several shillings in the net freights. He agreed that to him as a merchant there was no essential need for similarity or dissimilarity between the two freights, but he was strongly of opinion that if any differentiation were necessary it should be in the freights and not in the rebates.

(7) Outside Shipments.

Mr. Basden desired standing permission in the East African trade to ship by outside vessels when a Conference boat was not available or likely to be within reasonable time. Witnesses in certain other trades said that permission was readily given when asked for. As regards the Far Eastern trade Mr. Landale stated that when shippers have enough cargo to fill a steamer and the Conference have not sufficient tonnage to carry it available, they do not raise objections to shippers chartering.

D. SUGGESTED REMEDIES.

Sir Stephen Demetriadi and certain other witnesses, mainly those concerned with the Australian trade, were definitely in favour of legislation to render deferred rebates illegal. Sir Stephen Demetriadi and Mr. Wilson, while desiring the abolition of rebates, were not prepared to commit their Associations to the view that preferential freight rates should also be made illegal.

Mr. Turner, giving evidence on behalf of the Australian Government, expressed the opinion that the recommendation in the Majority Report of the Royal Commission on Shipping Rings in favour of measures of discussion, conciliation and arbitration would not be sufficient to effect the improvement desired by the trader because at present the power is all on the side of the Conference. Even though the merchants' associations might become much more powerful than they are, he did not think that they could be effective to secure the desired remedies. The witness was in agreement with Sir David Barbour's reservation to the Royal Commission's Report which was in the direction of establishing an effective check on shipping conferences in the matter of rates.

On the other hand, the Executive Committee of the Australian and New Zealand section of the Manchester Association of Importers and Exporters communicated their opinion that they were entirely in agreement with the finding in the Majority

Report "that most, if not all, the serious abuses to which the system is liable can be remedied by such counter-combinations on the part of merchants and shippers, and that it is generally undesirable that the State should interfere to remedy or prevent grievances which by a reasonable effort can be prevented or remedied by the persons concerned." Some witnesses were satisfied to work under the deferred rebate system as being preferable to any other tie but they were of opinion that the shippers' grievances would be materially less if the period of deferment were reduced and the system otherwise simplified.

EVIDENCE GIVEN ON BEHALF OF THE SHIPOWNERS.

A.—AS TO THE DEFINITE COMPLAINTS MADE BY SHIPPERS REGARDING FREIGHTS AND PROFITS.

(1) Comparison of Freight Rates under the Rebate System with Rates for Continental Shipments.

Shipowners admit that anomalies in the matter of these rates do occur. In normal times the Continental and British rates are kept at a parity through Conference agreements. The low Continental rates since the war are partly the result of the keen competition between foreign lines, which has brought rates in many cases below an economic level, and partly because Continental port dues and charges are on a lower scale than here. Recently an agreement has been reached to maintain equal rates from the Continent and from Great Britain in the Australian trade, and similar negotiations are proceeding in other trades.

- (a) The difference in rates in the Australian trade has now disappeared in consequence of the agreement above mentioned.
- (b) The disparity in the Calcutta-London and Calcutta-Hamburg rates was stated to be due to lower discharging expenses in the latter port. Actual steamer accounts were put in to show that the cost of discharging a ton of cargo from the same ship on the same voyage in London and Hamburg were 9s. 10d. and 1s. 4d. respectively; in the case of another vessel the figures were 7s. 4½d. and 1s. 0½d. [The exchange value of the mark was in each case taken as 1/100 to the £.]
- (c) Up to the outbreak of war there was a common tariff on a basis of equal rates from British and Continental ports to the Argentine. The difficulty in getting back to this condition was accentuated by the chaotic conditions of exchange.

(2) Sir Percy Bates strongly contested the complaint that the high rates of freight from Calcutta made it impossible for Calcutta linseed to compete with Argentine linseed in the London market. He pointed out that during the period complained of (December, 1920—March, 1921) very little linseed came from India, even from Bombay where the freights were presumably satisfactory. The imports from Argentine in 1920 and 1921 were 216,000 tons and 401,000 tons respectively, and from India 43,000 tons and 41,000 tons respectively—the latter figure being the smallest India import since 1913 (126,000 tons). The export of linseed from India fell off in 1921, because of the fall in the sterling value of the rupee, which through its violence checked rather than stimulated export; and in every factor making up the cost of linseed c.i.f. London there were violent changes as against which freight had little effect. Further the homeward liner trade from the Argentine is based on frozen and chilled meat, and the carriage of linseed is left to tramps, which adjust their rate according to their outward employment, *e.g.*, coal from South Wales. If the Calcutta shippers had to rely on tramp tonnage the freight would be higher than it is, because tramps would generally have to come to Calcutta in ballast.

(c) Comparison with Rates charged by Conference Lines in other Trades where the Deferred Rebate System does not obtain.

(a) Australian Coastal Trade.

Sir Alan Anderson stated that comparisons between the coastal and homeward freights in the Australian Trade are beside the point as in neither trade does the deferred rebate exist. [The shippers' argument pre-umably is that the rebate system holds the whole United Kingdom-Australia trade though applying directly to the outward trade only.]

(b) Calcutta-United Kingdom Trade as compared with Bombay-United Kingdom Trade.

Rough Cargo.—As regards the freights from Bombay and Calcutta, Sir Percy Bates held it was fallacious to make a comparison based on comparative length of voyages as such a method disregarded important factors. For instance, Calcutta exported coal coastwise whereas Bombay imported coal. Consequently vessels were becoming empty in Bombay and as they tried to obtain a cargo this naturally affected rates ruling from the port. These colliers may be chartered to load on the berth or by a freight speculator. There were no similar vessels discharging at Calcutta and looking for homeward freights. Further, at Bombay there were regular fixed passenger and mail sailings to United Kingdom and Europe and such vessels were frequently carriers at rates cheaper than the world basis and they affected the general Bombay freight market. The passenger vessels were not so regular from Calcutta and in any case with such vessels cargo held a predominating interest. Further, the round voyage had to be considered. For the outward voyage to Bombay, steamers obtained a better assortment of cargo and quicker discharge, combined with lower port dues than at Calcutta.

Tea.—The shipowners pointed out that precisely the same complaint was made to the Royal Commission, namely, that cargo rates were kept unduly high so that the tea rate might be maintained at a high level. At that time there was no rebate system in the trade. At the time when the last tea contract was made and subsequently, outside tramp rates from Calcutta were considerably above the liner rates.

(c) Ceylon-United Kingdom Trade as compared with Calcutta-United Kingdom Trade.

Mr Holt said that the homeward Conference from Colombo consisted of so many lines that Colombo had an almost daily service. The average shipment was not big and normally vessels reserved space for Colombo by shutting out cargo at original loading ports. Colombo rates could not therefore depend upon Calcutta rates but must be fixed at such a level as to induce not only Calcutta steamers but Far East and Australian steamers to reserve space. Tables were put in to show that Colombo freights were as often below Calcutta as above them over a period of years and that on the whole Colombo rates had compared favourably with those at Far East ports. In general terms the consideration of rates on the basis of their ratio to geographical distance was misleading. It neglected such important factors as the comparative cost of loading or discharging and cost of coal.

(4) Comparison of estimates of the cost of working vessels on the Australian run and of the profits that should be earned thereby.

As regards Mr Turner's estimates of the cost of running steamers in the Australian trade, Sir Alan Anderson contended that they were incorrect. Accepting, for the sake of argument, the rates for coal, &c., which were quoted, he said that on the outward voyage in ballast the expenses of the 10-knot tramp would not be £12,600, but £15,800, and of the 13-knot cargo liner about £18,500 instead of £14,000. The difference arose chiefly in coal, for which an extremely low consumption was taken, which could not be accounted for unless it were an error in calculation. As regards the homeward voyage, the expenses were about right. He contended that Mr. Turner's argument was that the liners were making extravagant profits, but in estimating the earnings of the liner it had been assumed that it went full, which was contrary to

facts. Assuming the liners were 37 per cent. full (the actual figures given for 1921 were 31 per cent., and for 1920 43 per cent.), the outward earnings would not be £46,000, but £17,112. These alterations converted the alleged gross profit of £15,800 to a loss of £13,300 on the outward voyage.

As regards homeward earnings, Mr. Turner had assumed that the ship loaded full with the three best classes of cargo only. Such cargo alone could not be got on the berth, and the ship had to take what was offering.

(5) The actual profits and financial position of the shipping companies concerned in the Australian trade.

Lord Inchcape stated that the policy of the shipping companies was the conservative and careful one of not distributing all their profits; they paid very small dividends. In his view, if new capital had been raised by public subscription for fresh vessels, higher freights would have been necessary to pay increased dividend, interest and depreciation charges. During the war, the Government took all the profits, as the ships were chartered to the Government at blue-book rates. At the time the witness gave evidence (June, 1921) he thought the outlook was very bad, as every ship going out to Australia was coming back with a large debit balance. He explained that in shipping there were a few good years, then a few bad years, and if the profits earned during the good years were distributed there would be serious difficulties in the bad years. In his judgment, the great shipping companies would be at the end of 1921 in a worse position than they were at the end of 1913. The prices of new ships had reached very high figures in 1920, and though there had been some fall lately, it was not more than about 15 per cent.

Sir Alan Anderson strongly criticised the evidence as to the financial position of the Orient Company. The Company was formed, he said, in 1878 with a capital of £436,000. In 1900 it was reconstructed; £140,000 was written off, and the shares were divided into a little over £100,000 deferred, and the rest preferred. Up to 1910 (32½ years), allowing for the writing off of the capital, there was a return of 1·49 per cent. per annum, and yet during this time, except for six years, a rebate system was in force. In 1907 a new fleet was built, which was in the water in 1910. This cost nearly £2,000,000, which was raised by borrowing where they could, from bankers, etc. About £100,000 profit in hand was put into it, and some debentures were issued. Thereafter the Company was trading, not on its nominal capital of £320,000, but also on the £2,000,000 which was borrowed. The bonuses which were given were on the original deferred capital of £100,000, but were earned on the £2,000,000; a 50 per cent. return on £100,000 only amounted to a 2½ per cent. yield on £2,000,000. In 1920 a bonus (see p. 34) was issued to bring the nominal capital more into relation with the real capital; some debentures were still outstanding. As regards reserves and depreciation, they aimed at depreciating 10 per cent. in the first year, reducing this by ½ per cent. each year afterwards, and this they had managed to do. The witness further pointed out that the Orient Company only derived 13 per cent. of its income from freight under rebate, and the influence of the rebate system was, therefore, not so large on their business as it might seem.

Sir Percy Bates said he was prepared to offer a similar criticism of the figures given relative to the financial position of the Commonwealth and Dominion Line, if it were considered necessary, but the Committee did not require this.

B.—EVIDENCE AS TO THE GENERAL PRINCIPLES UNDERLYING THE REBATE SYSTEM.

(1) The General Question.

The shipowners disclaim that the rebate system sets any limitations to the shippers' freedom of action. They point out that merchants have freedom of contract as they are free to leave the Conference at any time on forfeiture of the rebates. The amount of the rebate was very small compared with the value of the cargo. Although it was usually 10 per cent. of the freight, it only amounted on an average, for

example, to five-eighths, of one per cent. of the value of the cargo in the Far Eastern trade and to something similar in the Australian trade; and to one-third of one per cent. in the case of tea homeward from Ceylon. They point out that they do not discriminate against a shipper who ships outside the Conference lines by refusing to take his cargo; all that happens is that the shipper who gives exclusive support receives a 10 per cent. preference in freight over the one who does not and this is regarded as a legitimate business deal. The 10 per cent. rebate is the measure of the monopoly power which the Conference can exert. It was admitted, however, that in the case of a large shipper, the accumulated rebates may amount to a considerable sum, greater than the freight on a pretty good consignment.

It is denied that the Crown Agents are "hampered" in bargaining for the lowest rate of freight as they are free agents and can exercise the same option as all other shippers. Sir Alan Anderson was strongly of opinion that the practice of giving special terms for Government cargoes in the matter of contract quantities of railway materials, etc., was a bad one. Governments ought to pay their fair share of the expenses of running the ships.

(2) The Advantages derived from the System.

Shipowners hold, and merchants do not deny, that they provide regular, frequent, and efficient services and, in regard to general merchandise, preserve stability of freights, equal treatment for large and small shippers alike, and abstention from shipment on owner's account. It was admitted, however, that these advantages were not the subject of any explicit undertaking.

(a) Stability of Freights.

As showing that the policy of the Conference made for stability of freights, Sir Alan Anderson said that in the period before control during the war the increase in the Australian cargo rate was 109 per cent. as compared with an increase in the Wales Plate Coal Charter of 381 per cent. during the same period. During the control period, free tramp rates increased by as much as 1,054 per cent. After control the respective increases on pre-war freights were 117 per cent. and 288 per cent. in 1919; in 1920 the tramp rates came down to 73 per cent. and in 1921 to 4 per cent. over pre-war although their expenses still showed well over 100 per cent. increase. In 1921 the liner rate was 100 per cent. over pre-war, though expenses showed a larger increase.

He added that in this connection the merchants' and the consumers' interests coincided as neither wanted violent fluctuations in the price of commodities or in freights and when such fluctuations existed, trade had to be conducted on wide margins.

(b) Equality of Rates.

All the shipowners said that this was never departed from as regards general merchandise in trades run with a deferred rebate system. Full or large cargoes of heavy materials such as steel rails, etc., were, however, at times the subject of special contracts as they were suitable for carriage by tramps and might otherwise be taken that way.

(c) Regularity and Frequency of Service.

With regard to the statement that in the East African trade they called at irregular and long intervals and were delayed long in loading, the shipowners' evidence was to the effect that owing to shortage of cargo, particularly outwards, East Africa would frequently have been left entirely without any steamship communication at all, but for the fact that the shipowners were sensible of their obligations to maintain regular services even though the maintenance of such services resulted in serious loss. Further it was pointed out as showing that the shipowner felt himself under such an obligation that during the South African War, one owner sailing on the berth to South Africa continued to run a regular service and lost money owing to port delays although other owners were making large sums on time charters.

(3) The Necessity for Conferences and a Tie.

Shipowners generally took their stand by the findings of the Royal Commission on Shipping Rings that conferences of shipowners were necessary in most trades and further that such conferences must have some hold over their shippers. They referred in particular to Sections 295-6 of the Majority Report which are as follows:—

“295. The connection between a service attended by advantages such as those indicated and the Conference system enforced by the deferred rebate has been fully discussed, and we have expressed the opinion that, except under somewhat special circumstances, some such system is required if an organised service is to be maintained on a permanent basis. In support of this conclusion we desire to emphasise the following points:—

1. The history of the origin of Shipping Conferences, which we have given in Part II, shows that the demand on the part of shipowners for some such protection as that afforded by the rebate system synchronises in a significant manner with certain developments in the methods of sea carriage then in the course of evolution; that is to say, the growing requirements of trade for an organised service, the weakening of the personal hold of shipowners on particular ports or trades, and the increased keenness of competition between shipowners.

2. The system of Shipping Conferences and deferred rebates has undergone development and adjustment till it is to be found dominant on nearly all routes where a trade in general merchandise is the chief interest, and, on the other hand, absent from, or but in partial operation on, routes where the main trade is of a different character. The exceptional circumstances of the coasting and the North Atlantic trades, when examined, appear to us to lend additional weight to the arguments based upon this coincidence. They are, in fact, exceptions which prove the rule.

3. The evidence which we have heard or obtained in answer to inquiries shows that not only the shipowners but a large proportion (we are disposed to believe a large majority) of the regular shippers regard Shipping Conferences making use of the system of deferred rebates as the necessary means by which the advantages supplied under an organised service can be attained.

4. The economic reasons underlying the connection between the advantages of an organised service and the demand of shipping companies for an effective tie have been examined. Lines which maintain a regular service covering small as well as large foreign ports, and sailing at regular and fixed dates, are involved in greater expenses than competitors who choose their sailings and offer only irregular opportunities for shipments. Moreover, owing to the moveable nature of ships, such competitors, if driven off by the Conference from any one route, can resort to other trades without suffering any loss commensurate with that incurred by unsuccessful competitors in the general industrial world. When times are favourable, they can return uninjured to the attack. Finally, the adoption of some of the improvements whereby transport is cheapened, *e.g.*, the building of ships of larger carrying capacity or specially adapted for particular trades, increases the risks and difficulties of regular lines unless they possess some guarantee of a continuity of custom.

“296. On these as well as other grounds of less moment, we consider that where a regular and organised service is required, the Conference system, fortified by some tie upon the shipper, is as a general rule necessary.”

The shipowners claimed that no changes of a fundamental character had taken place since the Commission reported as would modify these findings or invalidate the arguments on which they rested. Without the deferred rebate system or some tie equally defective the Conferences could not ensure to shippers the main advantages which they require, namely, regularity and efficiency of service and stability and equality of rates.

The purpose of the tie was stated to be to prevent spasmodic competition by tramps. Such vessels would not compete on their own merits but would become to all intents and purposes part of the Conference service, although they had taken no part in providing that regularity of service which justifies the existence of the Conference nor in creating a trade or maintaining one at times when the service could only be maintained at a loss. The enormously greater capital value of the high class

liner, together with its increased cost of running over the tramp, accentuates the unreasonableness of such competition; moreover, a far greater proportion of the earnings of liners is applied to the up-keep and continuous forward development of a highly efficient service.

Sir Alan Anderson further stated that the tie acted as a protection to shippers in that it prevented speculative merchants taking advantage of cut rates to the detriment of their competitors.

Sir Ernest Glover, in dealing with the rebate system from the point of view of the tramp owners, said that they did not pretend to like the system, as they naturally favoured open markets, and the system was admittedly aimed at excluding the tramp. There was, however, no strong feeling on their part against it so long as it only applied to parcels or berth business and did not extend to whole cargoes. Generally speaking, the tramp owner did not want to cut into the berth trade, as it did not suit him. He agreed, however, that tramps could intermittently cause a dislocation of rates in a liner service.

The case of efficiently organised outside lines seeking to enter a trade was different. Sir Alan Anderson said that the Conference would naturally fight to keep them out, but the history of almost every trade showed that the rebate system has never kept out a powerful and efficient line provided always there was room for it and its advent was welcome to the shippers. No rebate or any other system would preserve a trade for a Conference unless that Conference served the trade adequately. He admitted that the Conference might become so strong, however, as to deter any new enterprise.

Sir Alan Anderson and Sir Percy Bates said, however, that excessive competition in a trade led to economic waste as the trade had to carry more ships than were necessary. Sir Percy Bates added that this meant that the facilities afforded steadily deteriorated because they could not pay, or if they paid, did so at the expense of the trade.

As regards the Commonwealth Government Line, the Conference view, as expressed by Lord Inchcape and Sir Percy Bates, was that this line was trying to enter a trade which the Conference had built up. The Conference naturally fought any new line, and they regarded the competition of a State-owned line as much worse than that of an ordinary company. Sir Alan Anderson thought the real question was whether there was room for the new line, and the answer rested with the shippers. He considered it was a bad time to introduce a new line when ships were going to Australia only one-third full. Mr. Holt said that the Conference had never refused to admit the Government line, but the difficulty was that they would not accept the rebate system.

The shipowners admitted that in certain trades regular services were run without a rebate system. They claimed, however, that on examination of such trades it would be found that the imposition of a tie was impracticable or unnecessary or that the other advantages the shippers desired were absent. The following examples and comments were given :—

- (a) *The Australian Homeward Trade* was run without a rebate system. The operation of the system in the outward trade, however, insured a regular homeward service. Further, the regular lines could not carry all the cargo offering, much of which, such as wheat, was carried by tramps. The homeward voyages were fixed on a basis of refrigerated produce, and contracts were often made with representative associations over a period of years at a uniform rate of all shippers. This very specialised type of tonnage hardly needed rebate protection.
- (b) *The New York Australia Service* is maintained on a basis of preferential contracts, and has not continued to make the same progress in respect of regularity and speed as has been the case in other trades where the rebate system has been allowed. In certain other outward American trades where no Conference existed, individual lines maintained their position through the exclusive support of one or more large customers.
- (c) *United States—South Africa Service.*—It has been impossible to develop a passenger or express cargo service in this trade. A large percentage of the trade is carried on under a system of agreements with large Corporations presumably on preferential terms.

(d) *India—United States of America Trade.*—Special reference was made to this trade by Sir Stephen Demetriadi, as having a regular service run without a rebate system. The shipowners, in reply, point out that the witness does not state how far this service is dependent upon the existence of large contracts or that both shipowners and shippers have suffered much from instability of rates and the attempts of some shippers to use the incursions of outside tonnage to their own advantage.

(e) *The South African Homeward Trade.*—The absence of a rebate system has resulted in widely fluctuating rates and general disturbance.

As regards American trades generally, it was stated by Sir Alan Anderson that the Shipping Board were trying to form Conferences based on a limitation of tonnage in order to maintain rates. Mr. Holt thought they would next be driven to reversing their legislation when they found these Conferences could not be worked satisfactorily without a rebate system or other tie.

(4) Alternative Ties to the Deferred Rebate System.

The shipowners maintain that it is necessary for them to have some hold over their customers and that the deferred rebate system is the best tie. Their position with regard to other ties was as follows :—

(i) *The Agreement System.*

Sir Alan Anderson believed that the South African agreement was in practice working not unsatisfactorily but that it was not very popular with either side. He said it was cumbersome but he had not had any concrete instances of objection to it. Shipowners were agreed that the deferred rebate system was the better tie but Mr. Holt said that if the majority of the shippers in a trade wanted the agreement the shipowners would find it difficult to resist them.

It was urged against the agreement system generally that it would be difficult to make the agreement apply to all merchants generally whereas the rebate system was automatic. The agreement held the shipper under an absolute obligation for a certain period of time whereas the rebate system enabled him to withdraw at any moment if he is willing to forego his rebates. The shippers' interests in the South African trade are to a quite exceptional degree focussed in an association competent to negotiate for all, whilst in any large general trade lacking such a representative association it would be highly inconvenient, if not wholly impossible, not only to complete but to renew at intervals contracts with individual members of a widely scattered and constantly changing clientèle. Mr. Holt thought it would be more difficult for a shipowner to break into a trade with an agreement system, especially if the sanction were a forfeiture under bond as any offer to pay damages for breaking the agreement, in the same way as forfeited rebates were paid, would presumably render the competing shipowner liable to criminal proceedings.

(ii) *Preferential Contracts.*

These were in operation in various trades before the advent of the deferred rebate system. The latter replaced them with the general approval of the shipper though some big shippers resented its introduction. Mr. Holt said that shipowners were reluctant to enter into such contracts now as they lead to trouble and jealousy, but if a trade became "open," shipowners would be driven to making them to ensure regular support.

(iii) *The Question of Extending an Option to the Shipper.*

Questions were put to Sir Percy Bates and Mr. Holt as to the possibility of an option as between the agreement and rebate systems being extended to the individual shipper. As the idea was novel, the witnesses were not fully prepared to answer and the matter was subsequently taken up directly with the Shipowners' Associations (see Appendix V). Mr. Holt, however, said that there appeared to be no insuperable objections so long as rates were not fixed by the agreement, and that shipowners would be ready to go into the matter if the majority of their shippers demanded it.

C.—AS TO THE OBJECTIONS MADE BY SHIPPERS TO THE DEFERRED REBATE SYSTEM AS AT PRESENT IN OPERATION.

(1) The length of the period of deferment.

The shipowners say that it is only desired to make the period of deferment sufficiently long to protect both shippers and owners, and that the period, which differs widely as between different trades, is a question peculiarly suited for discussion between the two parties.

(2) The payment of interest on the Rebate.

Shipowners in general do not admit this claim, as they contend that the rebate is part of the freight and is the property of the shipowner, to which the shipper has no title unless and until he has fulfilled certain conditions.

(3) Complexity.

Shipowners said they were prepared to explore with shippers the possibility of simplifying the conditions under which the rebate system is applied. They objected, however, to the claim that shipowners ought to pay rebates to shippers without the latter being under an obligation to claim them. This claim, and the proposal that an annual return of unclaimed rebates should be made, arose from the view that rebates were throughout the shippers' money. In any case, it was difficult for shipowners to be certain as to the actual ownership of the rebate in doubtful cases, and, farther, presumably, if this method were adopted, shippers who wished to leave the Conference would have to declare their intention in terms instead of merely abstaining from claiming rebates.

(4) Alteration of Rebate Form without notice.

This could only be due to inadvertence; it is not the practice of the Conferences.

(5) Enforcement of Rebate Conditions in respect of Shipments from Ports not served by the Conference.

The shipowners said it was impossible to admit the contention put forward by the Manchester Association of Importers and Exporters. They point out that the similar case of Dundee was considered by the Royal Commission, who reported that they had not found any actual hardship imposed upon shippers of this port by its non-inclusion in the list of Conference ports of sailing. The force of economic law can be relied upon to place in the list of Conference ports any additional port as soon as it can offer sufficient inducement.

(6) Comparison of Rebates in New Zealand and Australian Trades.

Not dealt with by the shipowners.

(7) Outside Shipments.

Sir Percy Bates said that permission to ship by outside vessels was always given when Conference tonnage was not available within a reasonable time, and instances in the Indian homeward trade and East African trade were adduced in support of this. He admitted, however, that the interpretation of "reasonable time" might lead to arguments, and the decision remained with the Conference.

D.—SUGGESTED REMEDIES.

The shipowners submitted that in general the burden of complaint against the deferred rebate system, as shown by the evidence given to the Committee, was not so heavy as at the time of the Royal Commission; and that it did not contain anything to falsify the findings of the Commission in any material degree. No system of regulating ocean trade could be so perfect as to obviate all difficulties, and as compared with the immense volume of transactions covered by the operation of the

Conferences, the specific complaints were small in number and in some cases unsubstantial in character.

They further submitted that any legislation directed against combinations of shipowners in particular would be class legislation and a gross injustice. It would be indefensible to prohibit shipowners from granting any consideration for exclusive support while other traders were at liberty to employ such means to consolidate their position.

Any legislation of a prohibitive nature, unless international in character, would injure British shipowners, especially at present when the war has stimulated the growth of foreign shipping and when foreign Governments are displaying a marked inclination to pass discriminatory legislation in favour of their own nationals.

Any interference by Governments with the workings of the shipping trade is markedly detrimental, and freedom of contract is the first public necessity.

They maintain that any defects or difficulties demonstrable in the working of the rebate system are such as can most properly be left, as the Royal Commission recommended, for settlement by bargaining and negotiation with representative bodies of shippers, who should, equally with the shipowners, possess adequate power for collective bargaining by combination.

Very little has been done in this way, but the shipowners would welcome the formation of Associations with whom they could confer. They confidently expect that if the machinery for bargaining was complete, the whole question of deferred rebates would reach a settlement. Such a settlement would be flexible and capable of adjustment to the precise and varying needs of different trades whereas legislation could only effect a rigid settlement. Above all shippers and shipowners would be jointly responsible for its attainment and maintenance on a basis of a full and frank recognition of their mutual needs and difficulties.

They considered that it would be undeniably premature to supersede the recommendations of the Royal Commission until at least they have been given a fair and reasonable trial.

APPENDIX III.

SUMMARY OF THE RECOMMENDATION OF THE ROYAL COMMISSION ON SHIPPING RINGS.

The Royal Commission on Shipping Rings was appointed in November, 1906, to enquire into the operation of shipping rings or conferences generally, and more especially into the system of deferred rebates and to report whether such operations had caused or were likely to cause injury to British or Colonial trade, and if so what remedial action, if any, should be taken by legislation or otherwise. The Chairman of the Commission was Mr. Arthur Cohen, K.C., and among the members were Lord Inverclyde, Sir Hugh Bell, Sir David Barbour (representing India), Sir Alfred Bateman, Sir John Macdonell, Mr. (now Sir) Robert Collins (representing Australia), Mr. Birchenough (representing South Africa), Mr. Pember Reeves (representing New Zealand), Mr. Mathers of Nova Scotia, Mr. (now Sir) Owen Philipps, and Mr. Oswald Sanderson.

The Commission made a Majority Report, which was signed, amongst others, by the shipowner members, to the effect that by means of the deferred rebate system shipping conferences protected themselves from competition and possessed a limited monopoly and that the limits to the monopoly lay chiefly in the latent possibility of alternative methods of transportation coming into existence if the monopoly were seriously and continuously abused (paragraphs 103 and 110). The Minority Report, which was signed by Sir David Barbour, Sir John Macdonell, Mr. Collins, Mr. Birchenough, and Mr. Barry, goes further than the Majority Report, and the signatories find that the conference system with the deferred rebate has created a monopoly "the limitations upon which are in many cases illusory and which generally tend to decline" (page 114). They also point out that such monopoly is subject to no statutory or legal control and state that such a position appears to them inadmissible.

The Majority Report expresses the opinion that the advantages conferred by shipping conferences are substantially dependent upon the rebate system or some

similar system, and that if the rebate system were abolished it would tend to be replaced by long contracts and preferential freights (paragraph 169). They find that the disadvantages of the conference system are those which are usually inseparable from a monopoly not subject to control and they consist in the abuse of the monopoly or the fear that it may be abused. They find that "the monopoly possessed by shipping conferences . . . confers on them powers with regard to the charging of rates which at certain times and in certain trades may exceed the power which they necessarily require over the shipper to enable them to maintain an organised service" (section 299).

The recommendations put forward by both Reports are really very similar; neither advocate the abolition of the rebate system by law nor any system of direct control (an exception is Sir David Barbour's reservation to the Minority Report in favour of such an effective check on shipping rings as would really break down the system altogether; such a check could only be imposed by legislation). The general recommendations then made by the Royal Commission to deal with the conference and rebate systems may be stated briefly as follows:—

- (1) The formation of shippers' and merchants' associations to bargain in the most favourable position with the conferences (paragraphs 324 and 325; page 115);
- (2) the vesting in the Board of Trade of power to conciliate, arbitrate and enquire in regard to complaints arising against the shipping conferences (paragraph 331; page 116); and
- (3) the introduction of a greater degree of publicity into the matter by requiring all conference agreements, certain other agreements, rebate circulars and claim forms and tariffs, to be deposited with the Board of Trade confidentially or published (paragraph 331); the minority would require all the agreements and similar matters to be made public in a report to Parliament, care being taken not to divulge information likely to be useful to competitors (page 116).

APPENDIX IV.

MEMORANDUM OF AGREEMENT between the undersigned South African shippers and the undersigned regular Steamship Lines trading to the Union Ports of South Africa.

1. This Agreement is entered into for the purpose of maintaining regular steamship services from the United Kingdom and the Continent Bordeaux to Hamburg, both inclusive to the South African Union Ports, with stability of freight and equality of rates to large and small shippers alike, and in fixing the rates regard shall be had to the rates in other Overseas Regular Trades.

2. The undersigned shipowners hereby agree to supply steamers to maintain the present regular berth sailings to the Union Ports of South Africa, and to provide sufficient tonnage for the ordinary requirements (including a natural increase) of the trade. Steamers to sail on the advertised dates as far as practicable, full or not full.

3. The rates of freight upon the revival of the Agreement shall be the following basic berth rates which have been agreed with the South African Trade Association:—

	Capetown and Algoa Bay.	Mossel Bay* East London and Natal.
Goods rated in present Tariff at 90s.— (Capetown basis) . . .	80s.	85s.
Goods rated in present Tariff at 70s.— (Capetown basis) . . .	60s.	65s.

* Note.—These rates have been subsequently revised by Agreement with the South African Trade Association.

Mail steamer rates (exclusive of primage) shall not be more than 5s. per ton in advance of rates by other steamers.

The above rates come into force after the 31st March, 1909 (with 5 per cent. primage in respect of Mail Steamers only), but without rebates for all descriptions of cargo. The shipowners reserve liberty to revise rates as circumstances may require, but they shall not without consultation with the South African Trade Association make any general alteration in rates. In the event of no mutual agreement for an alteration in rates being reached the matter shall then be submitted to arbitration.

4. In consideration of the shipowners supplying and maintaining the regular services, the undermentioned shippers agree to give their entire support to the undermentioned Steamship Lines from the United Kingdom and Continent (as defined in Clause 1).

5. In the event of anything occurring to disturb the stability and equality of rates the undersigned Shipowners will forthwith take effective measures in consultation and agreement with the South African Trade Association to protect the interests of the Signatory Shippers, and should no agreement be arrived at within fourteen days then any of the signatories thereto may withdraw from this Agreement upon giving thirty days' notice, but such notice shall be void if during the currency of same an agreement is arrived at. It shall, nevertheless, be competent for the parties by mutual consent to extend the time, for a period not exceeding thirty days, for the purpose of arriving at an agreement, and any notice of withdrawal given shall be void if during such extension an agreement is arrived at; but such withdrawal shall not invalidate this Agreement between the remaining signatories.

6. This Agreement shall not apply to large parcels of cargo not being merchants' berth cargo, but the shipowners agree not to make special arrangements at preferential rates to the prejudice of those shippers signing this Agreement, as regards the carrying off of such cargo, except with concurrence of the South African Trade Association. This shall not apply to railway material. In the event of any disagreement between the shipowners and the South African Trade Association as to what is not merchants' berth cargo, the same to be submitted to arbitration.

7. The shipowners shall be at liberty to suspend their obligations under this contract in the event of any declaration of war, or of war breaking out between any two or more first-class powers, or in the event of any revolution, riot, civil commotion, strike, lock-out, or labour dispute, rendering it impracticable for them to carry out the said obligations.

8. The shipowners undertake not to carry cargo on ship's account, except coals to fill up.

9. Notwithstanding anything in this Agreement any shipper shall be at liberty to ship by sailing vessels.

10. All alterations in and additions to the tariff of rates of freight to be communicated to the South African Trade Association as hitherto.

11. Shippers signing this Agreement are to give the shipowners a list of marks on whose behalf they are willing to come under this Agreement, and if there be any corporations, companies, firms or individuals for whom the said shippers act who refuse to come into this Agreement, the said signing shippers shall not be prejudiced thereby so far as their declared assenting marks are concerned, and the same shall apply to any withdrawal allowed by the terms of this Agreement.

12. This Agreement is to continue to 31st December, 1911, and is subject to six months' notice thereafter by any of the parties hereto for themselves only; provided, however, that in the event of this Agreement not securing stability and equality of rates (apart from Clause 5), the shipowners and the South African Trade Association shall meet to discuss the situation, with a view to such modification being made as may be considered necessary, and in the event of no satisfactory agreement being arrived at, any of the signatories hereto, for themselves only, may withdraw therefrom on giving three months' notice; and provided further that this Agreement may be terminated by any of the parties for themselves only, on giving fair and reasonable notice in the event of its being held to be a contravention of the Post Office Act, 1911. The Union-Castle Mail Steamship Company, Limited, may withdraw from

this Agreement on giving fair and reasonable notice, but their withdrawal shall not otherwise terminate this Agreement and shippers shall have the liberty to ship by the Union-Castle Mail Steamship Company, Limited, from the Continent, Middlesbrough, London and Southampton.

(Merchant's Signature).....

(Steamship Lines).....

Date.....19.....

APPENDIX V.

Correspondence with Chamber of Shipping and Liverpool Steamship Owners' Association in regard to the possibility of an OPTION between the REBATE SYSTEM and an AGREEMENT SYSTEM.

4th July, 1922.

DEAR SIR,

During the course of the evidence in regard to the deferred rebate system given before the Imperial Shipping Committee by Sir Percy Bates and Mr. R. D. Holt, on behalf of the Chamber of Shipping and the Liverpool Steamship Owners' Association, questions were asked as to the possibility of an arrangement whereby the shipper could be given the option of signing an agreement or of remaining under the deferred rebate system.

My Committee have since given further consideration to the matter and they have desired me to ascertain the detailed views of your Chamber as to whether it would be practicable for steamship owners through the various steamship Conferences to offer their shippers a running option of the rebate system as at present operating or a contract in which the main points of general application might be on the lines of the enclosed Memorandum of Agreement in use in the South African Outward Trade.* It is obvious that the details of such contracts would require careful consideration. It is recognised, for example, that provision would have to be made to prevent a shipper who had entered into a contract being able to revert to the rebate system before the expiry of such contract.

In view of the difficulties at present besetting ocean trade, it seems desirable that the report of my Committee in regard to the deferred rebate system should not be unduly delayed. I should esteem it a favour, therefore, if your Chamber could let me have their reply as soon as you can make it convenient.

A similar letter has been addressed to the (Liverpool Steamship Owners' Association) (Chamber of Shipping).

Yours faithfully,

(Signed) H. J. MACKINDER,

Chairman.

The Secretary,

Chamber of Shipping of the United Kingdom.

The Secretary,

Liverpool Steamship Owners' Association.

* See Appendix IV.

Chamber of Shipping of the United Kingdom,
28, St. Mary Axe,
London, E.C. 3.

28th July, 1922.

REBATES.

SIR,

Your letter of the 4th inst. has been carefully considered by the Chamber of Shipping of the United Kingdom and the Liverpool Steamship Owners' Association, and we have been instructed to reply thereto as follows :—

Assuming a widespread desire among shippers for a Contract Option as an alternative to the Rebate System, the shipowners would, we believe, extend such an option, provided it can be extended without prejudice to the existence of the Regular Lines which have been instrumental in building up the export trade of the country.

They are naturally predisposed to view with misgivings the introduction of an alternative to a system which for forty years or more has been immensely helpful to trade by providing security of tenure essential to the maintenance of the Regular Lines. The conditions in the various trades are diverse, and there is a corresponding diversity of opinion among shipowners as to how far the introduction of the alternative system is practicable.

There are, however, certain considerations arising from the suggestion which are generally pertinent to all trades :—

(1) If the Contract is to run for a definite period, then the shipowners must have the right, conceded to every other trader, of selecting the persons with whom they make such Contracts and their due fulfilment must be guaranteed to the satisfaction of the shipowners.

It must be borne in mind that if such Contracts instead of imposing the obligation to ship a definite quantity of cargo within any period, provide merely that the shipper is to give his entire support to the Line during that period, assurance of good faith as well as of financial sufficiency becomes of the first importance.

(2) Under the Contract system the onus of proving that the shipper has not given his entire support is on the shipowner.

Under the Rebate System the onus of proving that he has given such support is on the Shipper.

All the books and papers bearing on this point are under the control of the shipper, and whilst it is a simple matter for him to prove the affirmative, it is almost impossible for the shipowner without access to such books and papers to prove the negative.

(3) The above considerations are of importance in the outward trades from this country, however well they may be organised. They are of overwhelming importance in certain homeward trades in which the shippers are of many nationalities.

(4) The volume of cargoes and the regularity in their flow, vary greatly in the trades covered by the Conferences. It is therefore impossible for the shipowners to assume in all trades, as under the South African Contract, a responsibility in regard to regularity of service greater than is assumed under the Rebate System.

(5) The working of the dual system must result in some disorganisation in the established practice, introduce some inequalities, and impose a good deal of extra work on the Lines.

For these reasons and because Contract Shippers, if they pay only a net rebate freight, would have a preference over the Rebate Shippers, some percentage addition, say, $\frac{1}{2}$ per cent., must be made to the net rebate freight in the case of all shipments made under Contract.

(6) Each shipper entering into the Contract would require to agree—

(a) To give his entire support to the Conference Lines throughout the Contract period, and at the end of that period to produce (if so required) his books and papers so that the Lines may be able to satisfy themselves that such support has been given. The Rebate Shippers are bound to satisfy the Lines on this point.

- (b) To pay by way of liquidated damages on any breach of his undertaking a sum equal to the equivalent of what would have been his accumulated rebates if he had been shipping under the Rebate System. This provision is necessary to place the Contract Shipper on an equality with the Rebate Shipper.
- (c) That all questions arising under the Contract shall be dealt with by the Law Courts of the country in which is the principal office of the Line by or against which the claim is made.* This is what now happens under the Rebate System.
- (d) That if so required, the due fulfilment of the obligations assumed by him under the Contract shall be guaranteed by a cash deposit or a banker's guarantee. All such guarantees to be given jointly and severally to the Lines in the Conference.
- (e) That each Shipper's Contract shall be entered into with the Lines in the Conference jointly and severally, and be terminable on either side on six months' notice.

The above conditions would give to the Contract Shippers all the advantages enjoyed by the Rebate Shippers subject only to some addition to the net rebate rate of freight. The conditions attached are necessary if shippers under both systems are to be placed on equality. It may be that when the nature of these necessary conditions are realised, the supposed advantage of the Contract System over the Rebate System will disappear.

It is necessary to emphasise this point to guard against the possibility of the offer of the alternative scheme being looked on as illusory, but the difficulties are inherent to the Contract System which, on the one hand, must be watertight if it is to serve its purpose as a tie, whilst on the other hand it must not place those who prefer the Rebate System at a disadvantage.

We wish, moreover, to reiterate our apprehension that the reintroduction of the Contract System will imperil the maintenance of equality of rates, and involve the revival of other practices which the Rebate System was designed to abolish, and to point out that the efficacy of the Contract System as operated in the South African Outward Trade still remains to be demonstrated. During the War there was practically no competition. Since the War competition from foreign steamship lines is reviving and difficulties have already arisen in relation to competitive freights fixed without regard to the cost of the services rendered.

We are informed that experience has already shown that the pledge given in general terms by the shippers to accord their entire support to the Conference Lines does not secure to those Lines such regularity of employment as will alone enable them to maintain their services as they are now carried on.

If, after reviewing the whole position, the Committee think it desirable, the shipowners are prepared in their several Conferences on being satisfied that a substantial majority of shippers in number and volume so desire, to discuss with the shippers the precise terms upon which the option of the alternative system can be given.

We are, Sir,

Your obedient Servants,

Chamber of Shipping of the U.K.

(Signed) P. MAUBICE HILL,

Acting General Manager,

Liverpool Steamship Owners' Association.

(Signed) NORMAN HILL,

Secretary.

Sir H. J. Mackinder, M.P.,

Chairman,

Imperial Shipping Committee,

Board of Trade,

Great George Street,

S. W. 1.